AT&T 1994 Annual Report

With 5% of the $1.5 trillion global information industry, AT&T is a small fish with lots of room to grow.

AT&T 1994

THE WORLD'S NETWORKING LEADER

We are dedicated to being the world's best at bringing people together–giving them easy access to each other and to the information and services they want and need–anytime, anywhere.

AT&T provides communications services and products, as well as network equipment and computer systems, to businesses, consumers, communications services providers and government agencies. Our Worldwide Intelligent Network carries more than 175 million voice, data, video and facsimile messages every business day. AT&T Bell Laboratories engages in basic research as well as product and service development. AT&T also offers a general-purpose credit card and financial and leasing services. We do business in some 200 countries.

■ Revenues grew at the best rate since we became the new AT&T, to a record $75.1 billion. Products and systems sales were the major sources of that growth, with telecommunications services showing the strongest increase in nine years and financial services continuing double-digit gains.

■ Our operating income, net income and earnings per share all rose, after restating prior years for the merger with McCaw. Not only did this merger add to our revenues and earnings, it also makes us a leader in wireless services.

■ The company continued to have strong cash flow. This helps fund dividends and research and development. It also helps pay for investments to fuel our future growth, such as network improvements, financial assets and international expansion.

1994 Highlights

Dollars in millions (except per share amounts)	1994	1993	Percent Change
Revenues			
Telecommunications Services	**$ 43,425**	$ 41,623	4.3%
Products and Systems	**21,161**	17,925	18.1
Rentals and Other Services	**7,391**	7,299	1.3
Financial Services and Leasing	**3,117**	2,504	24.5
Total Revenues	**$ 75,094**	$ 69,351	8.3%
Income			
Operating Income	**$ 8,030**	$ 6,568	22.3%
Income before Accounting Changes	**4,710**	3,702	27.2
Accounting Changes	**-**	(9,608)	-
Net Income (Loss)	**4,710**	(5,906)	-
Per Common Share			
Income before Accounting Changes	**$ 3.01**	$ 2.39	25.8%
Accounting Changes	**-**	(6.21)	-
Net Income (Loss)	**3.01**	(3.82)	-
Dividends Declared	**1.32**	1.32	-
Stock Price at Year-End	**50.25**	52.50	(4.3)
Other Information			
Cash Provided by Operations	**$ 8,956**	$ 7,424	20.6%
Cash Used for Investing Activities	**9,755**	8,665	12.6
Total Assets at Year-End	**79,262**	69,393	14.2
Total Employees at Year-End	**304,500**	317,700	(4.2)

At AT&T, our core strength is our ability to build and manage networks that deliver services of value to customers.

Our business is based on building long-term, multifaceted relationships with customers who can increasingly look to AT&T for their communications and information needs.

The AT&T Worldwide Intelligent Network is the world's most advanced and reliable. It is central to our ability to connect people with people and people with information.

But our network does not stand alone. It is enhanced by what we uniquely offer: a business that combines communications, computing and network products and systems.

Networking is becoming increasingly vital in managing all aspects of people's personal and business lives. In fact, it is at the very heart of what has become a new global information industry. This report outlines our growth opportunities in this new industry and describes how we are well positioned to capitalize on them.

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Principal photographer: Frank Moscati

We're taking the lead in creating a world where smart networks connect to smart devices, giving people easy access to each other and to the advanced information services that will enrich the way they live, work and play.

Dear Shareowners

If you're like most readers of the AT&T annual report, you're holding a printed copy in your hand right now.

But you could also be sitting at a computer screen, looking at this report in electronic form — as well as browsing through other information about AT&T on the Internet.

Offering our report electronically is just one example of how the powerful combination of communications and computing is changing lifestyles and raising expectations of customers all over the world.

AT&T intends to meet those expectations.

I am confident because I am so proud of the job being done by AT&T people (more than 300,000 of them). By serving customers well, they have delivered our most profitable year since we became the "new AT&T" in 1984, satisfying analysts' expectations and producing record revenues at the same time.

The eddies and hurricanes swirling through our industry today provide us with opportunities on a scale that few, if any, companies have had before.

Earnings per share were $3.01; margins were higher at 41 percent; and top-line revenue growth was $5.7 billion. In fact, that revenue growth alone exceeded the annual revenues of 80 percent of the companies in the 1994 *Fortune* 500 listing. We also arranged sales of more than $1 billion in assets that were not a strategic fit with our mission.

This financial performance wasn't rewarded by the stock market in 1994, but we believe the fundamentals are sound and the market will respond accordingly.

You'll see in this annual report some major efforts in 1994 to make sure that AT&T is up to the job ahead. We made key alliances with other leading companies in the communications industry and in the related industries now converging in the marketplace for information technology. Each of these partnerships will leverage the intelligence in our network with the intelligence in customer devices to create powerful and unique services for our customers. AT&T WorldWorx™ Solutions, for example, enables teams of people at locations all over the world to see and talk with each other on their various desktop computers while sharing files in real time.

We completed the merger with McCaw Cellular Communications, positioning AT&T for leadership in wireless services, the fastest growing segment of our industry.

Supported by the R&D leadership of AT&T Bell Laboratories, we introduced many new products and services that speak to the needs of a society on the go. We became the first company to offer 500 service, for example, which gives mobile consumers and corporate road warriors a "follow me anywhere" phone number they can keep for life.

In a tough competitive environment, we showed our mettle. In different segments of communications services, we regained or held market share — helped immensely by our "True" campaign. We increased share in our equipment businesses — and won major infrastructure contracts in the United States, China, Saudi Arabia and other countries.

We were buoyed by winning America's highest quality award for the third time, and this year we won Japan's most prestigious award for quality as well. The diversity of our workforce and leadership team was also improved, strengthening our ability to meet the needs of an increasingly diverse customer base.

Perhaps the best measure of quality is the ability to deliver customer satisfaction — again and again and again. As we sharpen our focus on customers, AT&T is taking on the intensity of an Olympic training camp. In world-class competition, there is no substitute for constant improvement.

Looking ahead, we see a number of challenges.

We have important work to do in knocking down internal barriers and making it easier for customers to get the full benefit of all of AT&T's capabilities.

More and more consumers and businesses are looking for someone who can combine services and equipment into communications offers that really meet their lifestyle or management needs. So we must marshal all of our resources to serve customers well in two ways: First, with products and services on a stand-alone basis. And second, with packaged or integrated offers — customized to specific consumer segments or the complex needs of businesses.

Along with the challenges posed by our familiar competitors, we face nontraditional competition from new entrants in the highly dynamic information market. This double-edged competition makes it essential to hold down costs and offer competitive pricing, while not letting up on continuous innovation.

We also still have a lot to learn about managing the complex outside partnerships that are essential to our future. Not all these ventures will work (bumps and detours are part of the Information Superhighway), but we must forge alliances around the world to stimulate our own thinking and enhance our ability to meet emerging customer needs with increasingly better products and services.

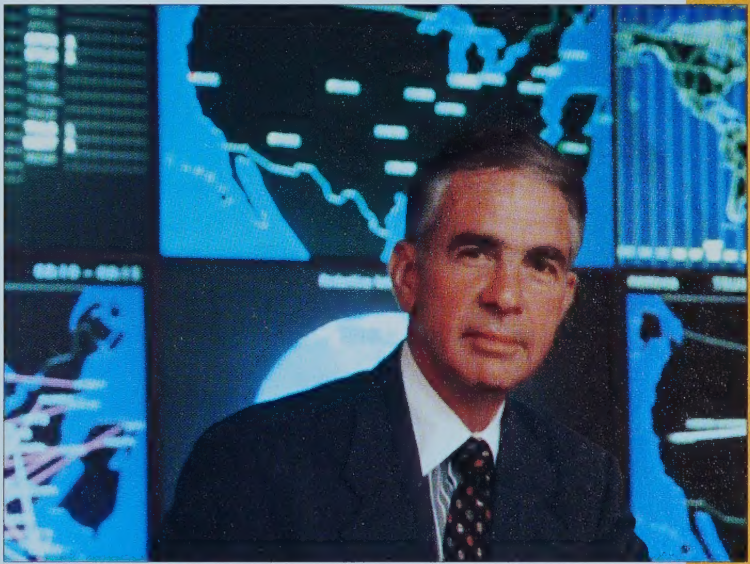
We're proud of how far our globalization effort has come, but AT&T people recognize that there's also a good deal yet to learn about operating a truly global business.

Finally, it is critically important that we make our voice heard on the public policy front. In America, that means requiring real competition for local telephone service before permitting the local telephone monopolies to enter the highly competitive long distance market. In other countries, we must press for the right to compete with the same freedom competitors from those nations enjoy in the United States.

So the future won't lack for challenges. But the eddies and hurricanes swirling through our industry today provide us with opportunities on a scale that few, if any, companies have had before.

AT&T is smack in the middle of an emerging global information industry that's advancing at breakneck speed. This is a $1.5 trillion industry today with every prospect of doubling in size early in the new century.

As the cover of this report emphasizes, we have plenty of room to grow. We're going after that growth with a



strategy built around AT&T's strength as the world's networking leader. We're taking the lead in creating a world where smart networks connect to smart devices, giving people easy access to each other and to the advanced information services that will enrich the way they live, work and play.

No other company on earth has AT&T's potential to lead this market and to grow long-term value for shareowners and customers at the same time. We won't do it without the help of strategic partners, and we certainly won't do it without competition.

But we will do it.

Robert E. Allen
Chairman
February 9, 1995

The world is shrinking. Information is exploding. Industries are converging. Opportunities are emerging. Networking is at the very heart of the new global information industry. And it's what we do best.

Growth Opportunities

Think back just three years ago. Unless you were an academic or a computer hacker, chances are you had never heard of the worldwide computer network known as the Internet. And you weren't tired of references to the Information Superhighway because no one was talking about that either.

A lot has happened. More trans-Atlantic telecommunications circuits were added in the past three years than in all previous history. The Internet now connects some 25 million people worldwide. Electronic mail, voice mail and portable phones have become everyday staples for many.

At the same time, half the world is still waiting to make its first phone call, and the waiting period for a phone line in some countries is 10 years.

The good news is that many of them may not be waiting much longer. Developing countries now recognize the indisputable links between communications capability and economic development.

What has so many people excited is that this new industry is worth well over $1 trillion today and it's growing 8 to 10 percent annually.

What does all this mean to the shareowners and employees of AT&T? In a word, *opportunity.*

As technologies and industries converge to meet expanding demand for everything from portable communications to information services to interactive entertainment, what is emerging is a new "global information industry."

What has so many people excited is that this new industry is estimated to be worth well over $1 trillion today and it's growing 8 to 10 percent annually.

What has us at AT&T excited is our good fortune to be at the very heart of this convergence, which gives us the ability to greatly expand our current 5 percent share of the global markets created.

As the distinctions between communications and computing have blurred, we have carved out a leadership position in networking, combining the best of both technologies to benefit customers in new ways.

As computers, phones, TVs and fax machines merge to produce intelligent hybrids like home "information appliances," multimedia systems and personal digital assistants, we have expertise in virtually all the technologies employed.

As the world clamors for everything from basic telecommunications to palm-held information devices to home shopping, we offer a full range of supporting products and services — from integrated circuits to switching systems, and from voice and data communications to audio processing and messaging systems.

We also have considerable expertise in software, the enabling technology behind many "information age" products and services. One out of every 10 AT&T people is engaged in software development.

Besides technical expertise, we have the skills to provide customized, integrated offers — either alone or in concert with partners attracted by the strength of our brand, the power of our technology and the skills of our people.

Not that there aren't challenges. Growth opportunities have a way of attracting formidable competitors.

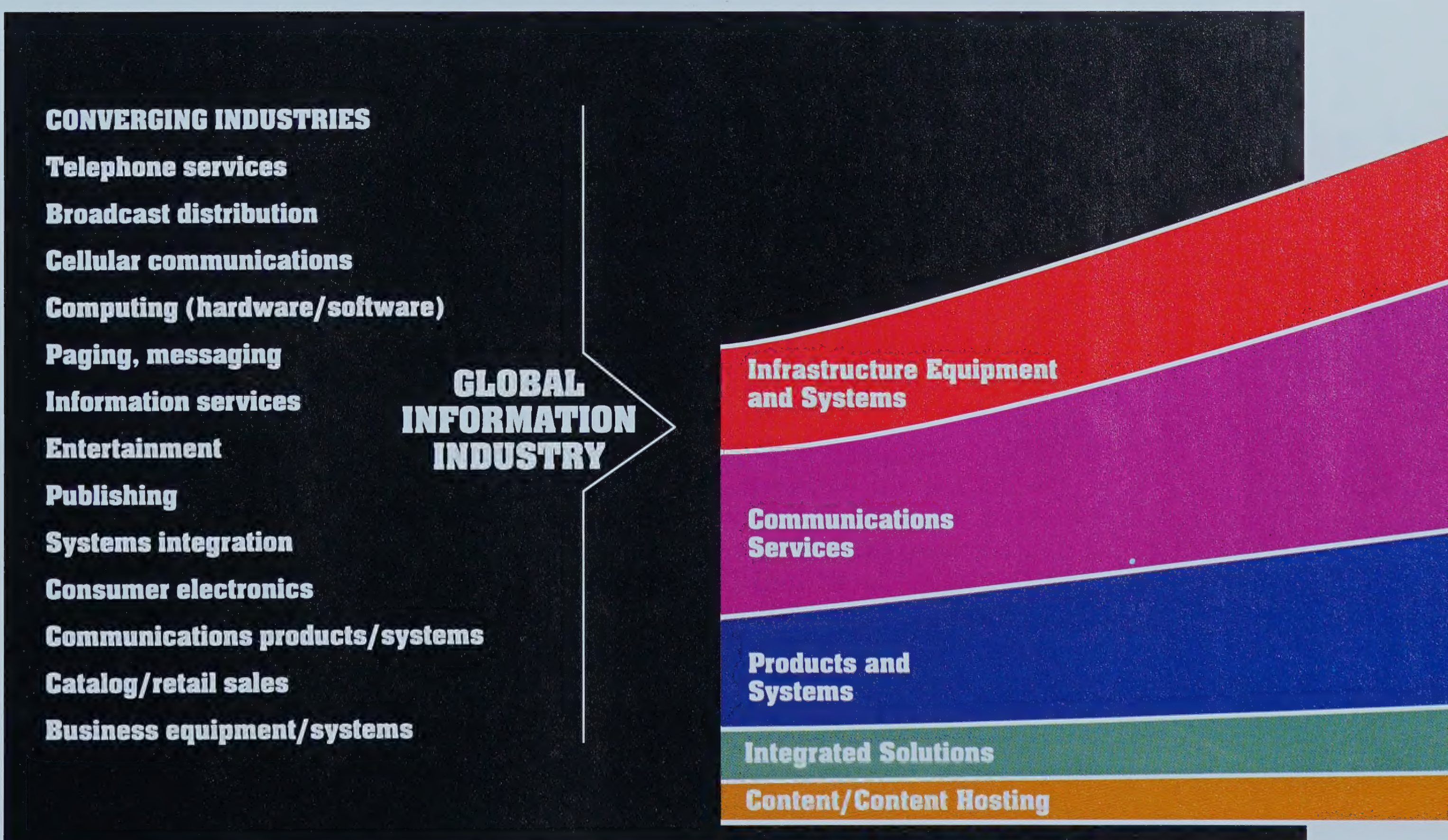
We can't predict exactly how the information industry will evolve, but we know that the breadth of our participation greatly increases our chances to capitalize on its growth.

The New Global Information Industry

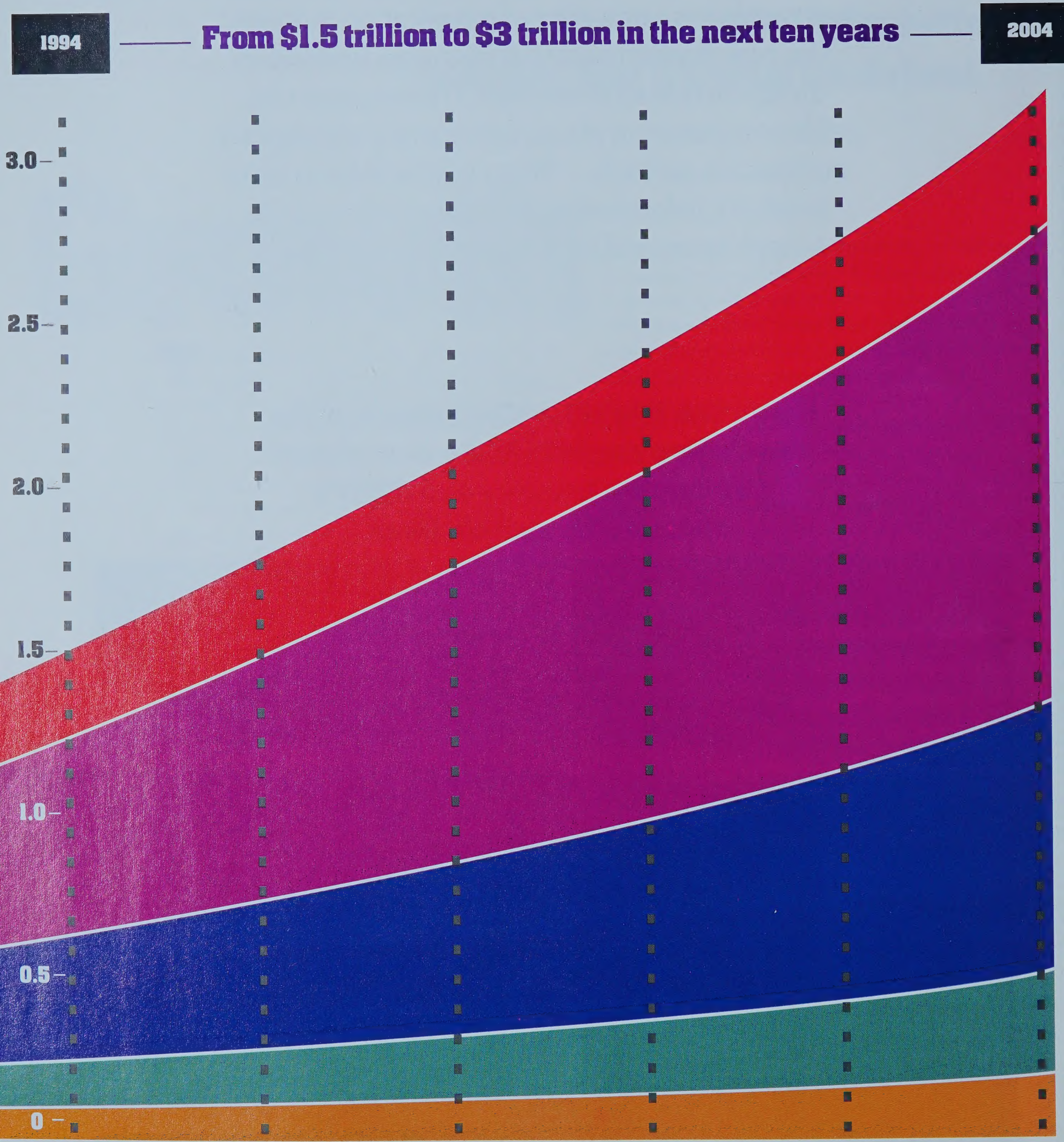
"As technologies and industries converge, what is emerging is a new 'global information industry.' The new marketplace will no longer be divided along current sectoral lines. There may not be cable companies or phone companies or computer companies, as such.... There will be information conduits, information providers, information appliances and information consumers."

—U.S. Vice President Al Gore

Here's one way of looking at some of the developing markets in the new global information industry and AT&T's opportunities within them.



Turn the page to see how these market trends might affect you.


1994
From $1.5 trillion to $3 trillion in the next ten years
2004
3.0
2.5
2.0
1.5
1.0
0.5
0

Growth Markets

'94 Market Size/ Annual Growth*	Market Drivers	AT&T's Role	Some Key Players
Infrastructure Equipment and Systems $150 billion / 9%	Expansion and modernization of global networks, new telecommunications providers, demand for multimedia and other new capabilities.	Hardware, software and systems integration supporting global networking of voice, data and video. Includes microelectronics, switching, transmission, wireless, satellite and operating systems; massively parallel and scalable computing; database management; fiber optics and applications software.	AT&T Alcatel Ericsson Intel Motorola NEC Northern Telecom Siemens
Communications Services $750 billion / 7%	Demand for comprehensive packaged offers, mobile communications and information sharing; increased traffic; reduced regulation.	Traditional and emerging voice, data and video communications services. Includes U.S. and international long distance; mobile, air-to-ground, paging, messaging, voice processing, language interpretation and interactive voice, data and video services; electronic mail and electronic data interchange.	AT&T British Telecommunications Cable companies Local telephone companies MCI NTT Sprint
Products and Systems $400 billion / 7%	Need for easy-to-use, multi-use, "smart" communications and computing devices offering access to new services.	Communications, computing and other equipment for consumers and businesses worldwide. Includes corded, cordless and cellular communications devices; multimedia personal computers; desktop videoconferencing systems; answering, audio processing and messaging equipment; modems; and retail, financial and other business systems.	AT&T Apple Compaq Hewlett-Packard IBM Matsushita Motorola Sony
Integrated Solutions $100 billion / 12%	Increasing time and cost pressures on businesses, growing sophistication and interdependence of communications and computing networks.	Systems integration, network management, transaction-management and other end-to-end solutions and professional services that bring together the benefits of numerous technologies for customers so that they can concentrate on their businesses.	AT&T Andersen Consulting EDS IBM
Content/Content Hosting $50 billion / 12%	Global demand for entertainment, home shopping, home banking and on-line access to information.	Development and management of interface systems and software that help people navigate a wide variety of information and entertainment choices from content providers.	AT&T Cable companies Local telephone companies Matsushita Microsoft The News Corporation Sony Time Warner

*compound annual growth rate

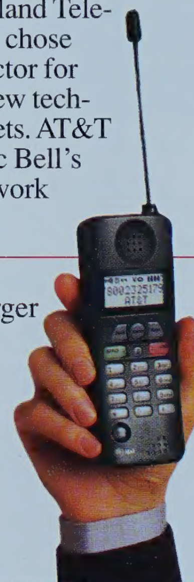
Growth Initiatives

Infrastructure Equipment and Systems

Time Warner, Bell Atlantic, Southern New England Telephone, GTE and others chose AT&T as prime contractor for their expansions into new technologies and new markets. AT&T broke ground on Pacific Bell's multibillion-dollar network upgrade.

AT&T provided the equipment for an ultra-high-speed voice, data, and video communications link between China and Hong Kong — and signed a long-term partnership agreement with China worth $500 million over the next five years. We plan to double our workforce in China in the next two years.

Communications Services



The McCaw merger positioned AT&T as the largest wireless service provider in the U.S. McCaw's subscriber base grew dramatically in 1994.

WorldPartners, the AT&T-supported alliance that offers global companies seamless communications services, extended its direct reach to 26 countries. Signing on were three partners of Unisource — a consortium of Dutch, Swedish and Swiss telephone companies — plus others in Australia, Hong Kong, Korea and New Zealand.

Products and Systems

The Vistium™ Personal Video System 1200, half the price of similar products, hit the market just as the desktop conferencing market heated up. Demand for such systems is so high the software is standard on AT&T Globalyst™ personal computers.

Integrated Solutions

AT&T and Delta Air Lines formed TransQuest Information Solutions, a joint venture to develop computing and communications services such as electronic ticketing for the airline industry. Estimated venture revenues from Delta alone are $2.8 billion over 10 years.

Content/Content Hosting

AT&T formed a new unit to offer a family of interactive electronic services such as home entertainment and access to on-line information from publishers and other content providers.

Revenues for network systems outside the U.S. grew 20 percent in 1994. AT&T won the largest telecommunications contract ever awarded outside the U.S. — $4 billion in Saudi Arabia — and, in Argentina, the largest cellular contract ever awarded outside the U.S.

AT&T supported videoconferencing with a new microchip that boosts quality and global reach — at half the price of the chip it replaces. Sales of electronic components were up overall, with sharp growth outside the U.S.

AT&T WorldPlus® Service gives global travelers hassle-free communications in more than 45 countries — a toll-free number to tap into local and international calling, speed dialing, messaging, interpretation and information services.

AT&T launched an aggressive campaign in 43 states to compete in the $16 billion market for local toll calls. Our share of the consumer market alone more than doubled by year end.

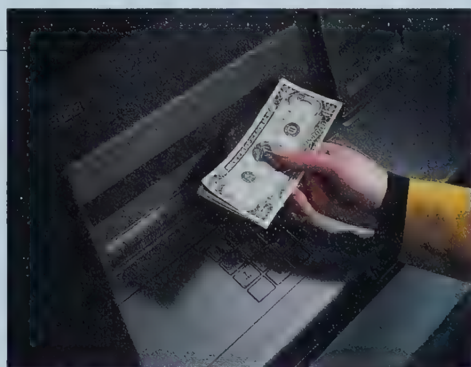
WorldWorx™ Solutions delivers "video dial tone" using the AT&T network. People can now plug in a variety of computer systems and communicate face to face while sharing data in real time.

The AT&T TV Information Center works with your television to serve up local traffic and weather, sports scores, stock quotes, electronic banking and telephone answering services at a fraction of the cost of a personal computer.

Another new "intelligent device" (left) was designed for the growing legions of home-office workers. The Two-Line Personal Information Center 882 has built-in caller identification, speakerphone, calendar and personal directory features, helping customers put all their contacts and reminders at their fingertips.

Rover, the UK's top automobile producer, began managing its distribution network with an AT&T on-line tracking system. Linking manufacturing plants, distributors and dealers in regional hubs cut inventory levels by 40 percent and reduced delivery times.

Great Western Bank, the world's seventh largest savings institution, chose AT&T to design and manage its entire data network. The deal, worth $160 million over seven years, will give Great Western a more reliable network so it can serve its customers better and more cost-effectively.



AT&T entered the business market for on-line services by buying the Interchange Online Network from publisher Ziff Communications. It's one way AT&T intends to provide open and intelligent hosting networks so information providers and software companies can offer products and services electronically.

ImagiNation Network, the premier on-line interactive game network, joined the AT&T family. Its growing subscriber base includes physically challenged people who "get together" regularly to play bridge and newlyweds who met while playing chess.

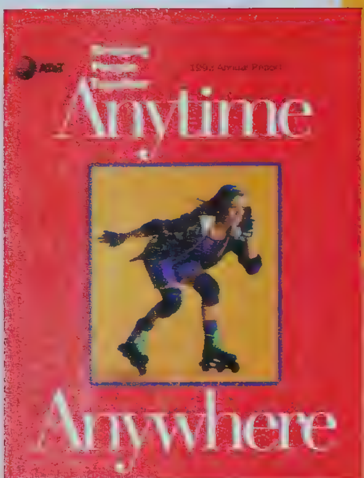
Year in Review

Some growth opportunities in the global information age may be new, but we're capitalizing on them by focusing on proven strategies: dedication to customers, quality, global expansion, innovation—and alliances with partners who can help us turn opportunities into successful products and services.

And while we're doing all that, we're also looking for ways to cut costs and speed product and service delivery.

Our commitment to growth is evident in our most widely publicized 1994 accomplishment, our merger with McCaw, as well as in other highlights of the year.

But the global information industry is doing more than providing growth opportunities for AT&T. It's changing the way we all live, work and learn—for the better.



The Chinese version of last year's annual report, showing a young woman skateboarding at the Great Wall, speaks volumes about how we're globalizing and bringing people together — *anytime, anywhere*. China is the world's largest undeveloped telephone market. AT&T is one of China's largest telecommunications suppliers.

Growth through Wireless Expansion

More than 17,000 new customers sign up for cellular service each day. Two out of every three new phone numbers are assigned to wireless customers.

What people clearly want today is the freedom to communicate with people, not places. The growth in wireless services tells the tale.

The cellular phone industry chalked up its 10 millionth customer in 1992, its ninth year in existence, making it one of the fastest growing consumer electronics product industries in history. Then it went on to double that base less than two years later.

Who better to capitalize on that growth than the combined forces of the leading wireless provider, McCaw Cellular Communications, and AT&T. The merger, completed in September, has a host of benefits.

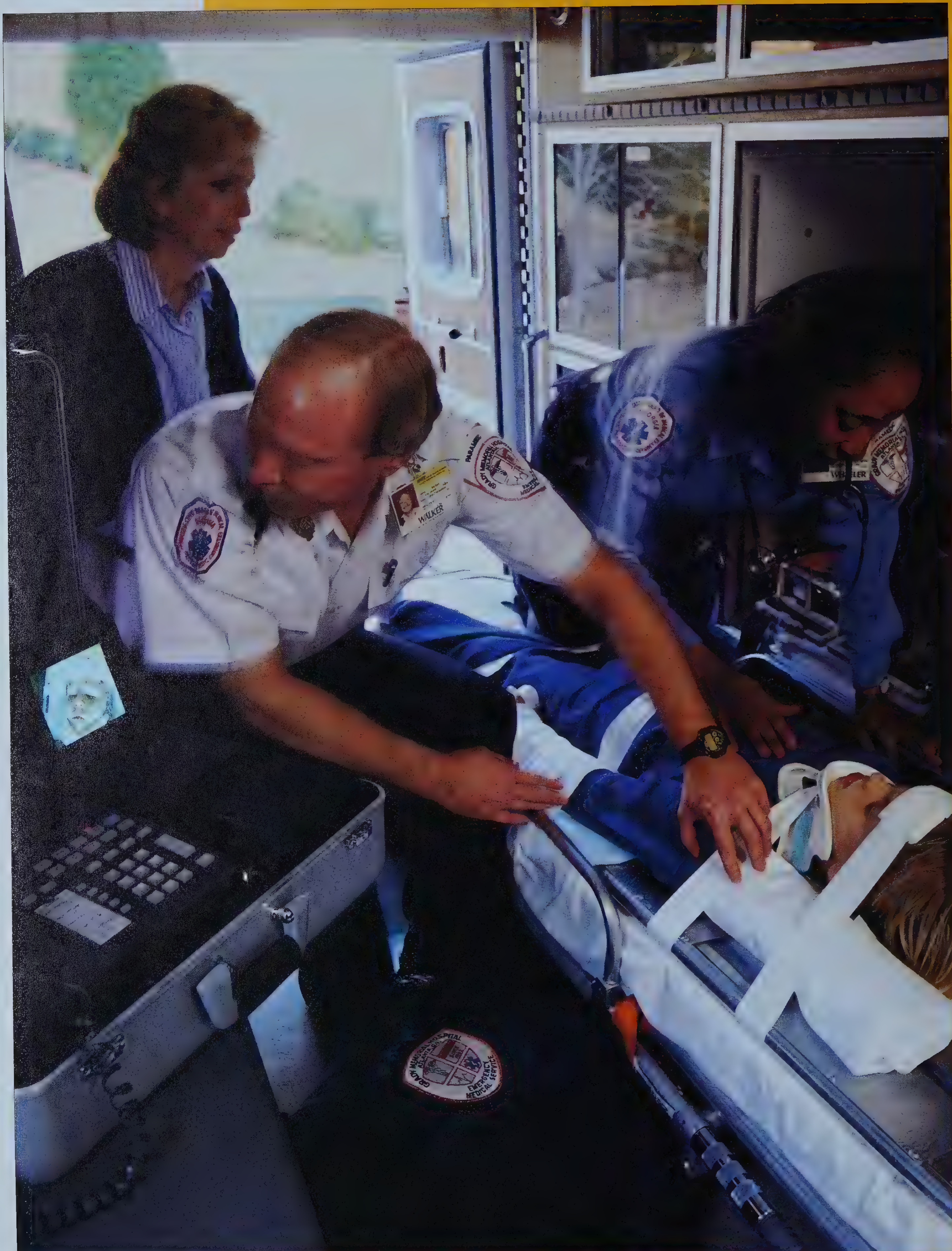
Greater sales and service firepower through the brand recognition and resources of AT&T. More innovative products and services by combining McCaw's expertise with that of AT&T Bell Laboratories. And, eventually, one-stop shopping for both wired and wireless communications.

During 1994, our new cellular unit not only grew its revenues by more than 30 percent, it expanded the number of customers served by high-quality digital service. In November it announced its first AT&T-branded product, the first wireless data receiver with a graphic display.

In January of 1995, it introduced the nation's first wireless caller identification feature, allowing customers to use their cellular phone more selectively by screening incoming calls.

One reason the merger has gone so smoothly is that both companies not only share the same commitment to growth, they share the same focus on customers, quality and innovation and the same philosophy about being open to new ideas that give people control of their communications.

McCaw's subscriber base has been increasing well over 30 percent for the last few years and shows no signs of abating.


WALKER

The doctor will see you now

By the time the ambulance arrived at Atlanta's Grady Hospital, the patient's injury was already diagnosed and a surgical team was prepped and ready in a third-floor operating room.

That's because he'd already been "seen" by a physician at the hospital, thanks to AT&T Picasso™ Phone images transmitted by paramedics from the accident site to the emergency room.

The scene pictured is simulated, but situations like it have become commonplace at several hospitals where Emory University is conducting clinical trials.

Sending such images over regular phone lines used to be cumbersome and expensive, and images were poor. The Picasso Phone is changing all that. It even works over cellular networks.

Specialists in urban areas can now examine medical images of patients miles away, instantly, advising local physicians on treatment without leaving their offices.

Doctors can make "virtual house calls" with the help of medical assistants equipped with portable systems. Soon medical records may routinely shuttle from physician to physician across phone lines, speeding treatment and cutting costs.

Some estimate that broad use of telemedicine could slash $36 billion annually from the U.S. health care bill alone.

Growth through Customer Focus

Revenues grew more than 8 percent during 1994, a good indication that we're addressing customers' needs in highly competitive markets.

Strip away the strategic and marketing complexities and one fundamental truth remains: The key to a growing business is giving customers what they want — and need.

Contributing to our success in 1994 were revamped consumer long distance offers first announced in the closing days of 1993. Customers told us they wanted simple plans. We gave them simple plans. The result: Combined enrollment in AT&T True USA℠ Savings and AT&T True Rewards℠ programs topped 31 million in 1994, making them the most successful long distance promotions in history.

Business customers told us network reliability and performance were critical to their success. Making the most of our strong suit, we introduced the industry's first comprehensive set of guarantees for voice and fax services.

Many countries the world over looking for world-class telecommunications systems at competitive prices found what they wanted at AT&T. As one securities analyst noted, we have become the preferred supplier to the world.

While buoyed by revenue growth across all of our major business groups, we weren't lulled into complacency. Our Global Information Solutions, Network Systems and Business Communications Services units redesigned their operations around customer-focused teams. Those teams are charged with understanding the needs of specific customer groups and delivering products, services and integrated solutions that meet those needs.

Not satisfied with its phenomenal success in the credit card arena, Universal Card Services introduced the Something Extra℠ program. It's the first program in the industry to reward cardmembers every month whether they make new purchases or choose to pay off purchases over time.

Customer service representatives like John Lee were hard pressed to keep up with demand for our redesigned long distance offers. We ended the year with a net gain of a million residential customers.

A world of opportunity

Two years ago, the Czech Republic didn't even have a stock market. Today, thanks to AT&T's DEFINITY® private phone switch and CONVERSANT® interactive voice technology, Lubomir Pužej's customers can get around-the-clock stock quotes and buy and sell stocks by phone.

Like Pužej, of Prague's Harvard Capital and Consulting Company, businesses and countries worldwide are skipping entire stages of technological and economic development. They're finding that optical fiber, digital switches and wireless transmission systems offer shortcuts to prosperity.

The fast-growing Moscow suburb of Mitino leapfrogged from 300 telephone lines to 30,000 in 1994 by installing a state-of-the-art AT&T 5ESS® switch. Now Irina Osipenkova won't have to wait years for a telephone.

Argentina found the quickest and most cost-effective way to supply service to 100 rural towns and enhance business communications with the rest of the world was to invest in a cellular network using AT&T equipment. Latin America's $10 billion telecommunications infrastructure equipment market is one of the fastest growing in the world.

Growth through Quality

AT&T is the only company to receive America's highest quality award three times.

While our attention was riveted on customers, our efforts did not go unnoticed by independent experts with a trained eye for quality and customer satisfaction. Our consumer long distance unit received America's highest honor for quality in 1994, the Malcolm Baldrige National Quality Award. In 1992, AT&T Universal Card Services and AT&T Transmission Systems scored an unprecedented double win.

Our integrated circuit plant in Florida garnered yet another honor, the Shingo Prize for excellence in American manufacturing.

The Republic of China singled out AT&T Taiwan Telecommunications as the winner of its National Quality Award for achievements in quality business practices and management.

To top things off, AT&T snared top honors in all categories of *Data Communications* magazine's annual survey of long distance data services customers. *PC World* magazine rated AT&T Global Information Solutions "best" in personal computer reliability and service support. And AT&T walked off with nine Enterprise Technology Awards from *Network World* readers.

Not only did our consumer long distance unit win the Malcolm Baldrige National Quality Award in 1994, AT&T Power Systems became the first American manufacturing company to win Japan's top quality honor, the prestigious Deming Prize.

Growth through Globalization

Revenues from operations outside the U.S. grew more than 31 percent in 1994. We now have more than 50,000 employees outside the U.S.

Many of our growth opportunities lie outside the United States. We're well positioned to take advantage of them, having made good progress in our globalization efforts during 1994.

Nations are privatizing and modernizing their network infrastructures because such investment is recognized as a springboard to economic growth in the highly competitive global marketplace.

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Have phone, will travel

Rhonda Brown is a woman on the move. And she doesn't make a move without her cellular phone.

A review judge with the Washington State Employment Security Department, she can enjoy son Averill's swimming lesson and still keep tabs on her home office in Tacoma and state offices 40 miles away in Lacey.

Brown, who has a muscle and nerve disorder, depends on cellular service for security. She also finds it and other "anytime, anywhere" communications advancements help her manage her busy professional and personal lives.

She's not alone. More and more people are working at home — and on the road — thanks to cellular phones, fax machines, electronic mail and other communications tools.

A third of the U.S. adult workforce aged 18 or over now work at home at least some of the time. Industry-wide, the work-at-home market generated $23 billion in long distance calling alone in 1994.

AT&T offers an array of products and services to meet the needs of this burgeoning market.

We're responding by providing many of the necessary building blocks.

Three years ago, our Global Business Communications Systems unit offered products in 15 countries. Now it sells systems in nearly 90 countries and has doubled its sales outside the United States every year for the past three years.

In 1994 we also devised a way to deliver consumer products efficiently in an international marketplace. Instead of redesigning devices to meet the technical standards in each country, we developed the first phone containing new AT&T integrated circuitry that can be reprogrammed easily to meet any national standard.

We're also making headway on the services front. Case in point: We announced plans to form a joint venture with Grupo Alfa, a leading Mexican business consortium, to deliver communications services in Mexico. Mexico's telecommunications market is expected to expand rapidly as it triples its telephone lines by the year 2000.

Bell Labs' Bob Tkach and Andy Chraplyvy set a new world's record for lightwave transmission, sending the equivalent of 5 million simultaneous phone calls over a single pair of optical fibers. That's 100 times more than any existing commercial system.

Growth through Innovation

AT&T Bell Laboratories, our world-renowned research arm, churned out its 25,000th patent during the year. That's virtually a patent a day since its inception in 1925.

You can launch a company with one good idea, but at AT&T we understand that long-term success requires dedication to continual innovation. In our case, that means constantly searching for new technology and new ways to make technology more useful to customers.

Bell Labs is a key participant in a research and development effort to build and test a high-speed optical communications network that would enable low-cost delivery of such services as interactive town meetings and on-line shopping.

But Bell Labs doesn't have a monopoly on innovation at AT&T. It's something we strive for in the introduction of every product and service and in the design of every manufacturing process or customer service procedure.

It's evident in the AT&T Paradyne® Dataport® 2001 modem. Cited in *Popular Science* magazine's 1994 "Best of What's

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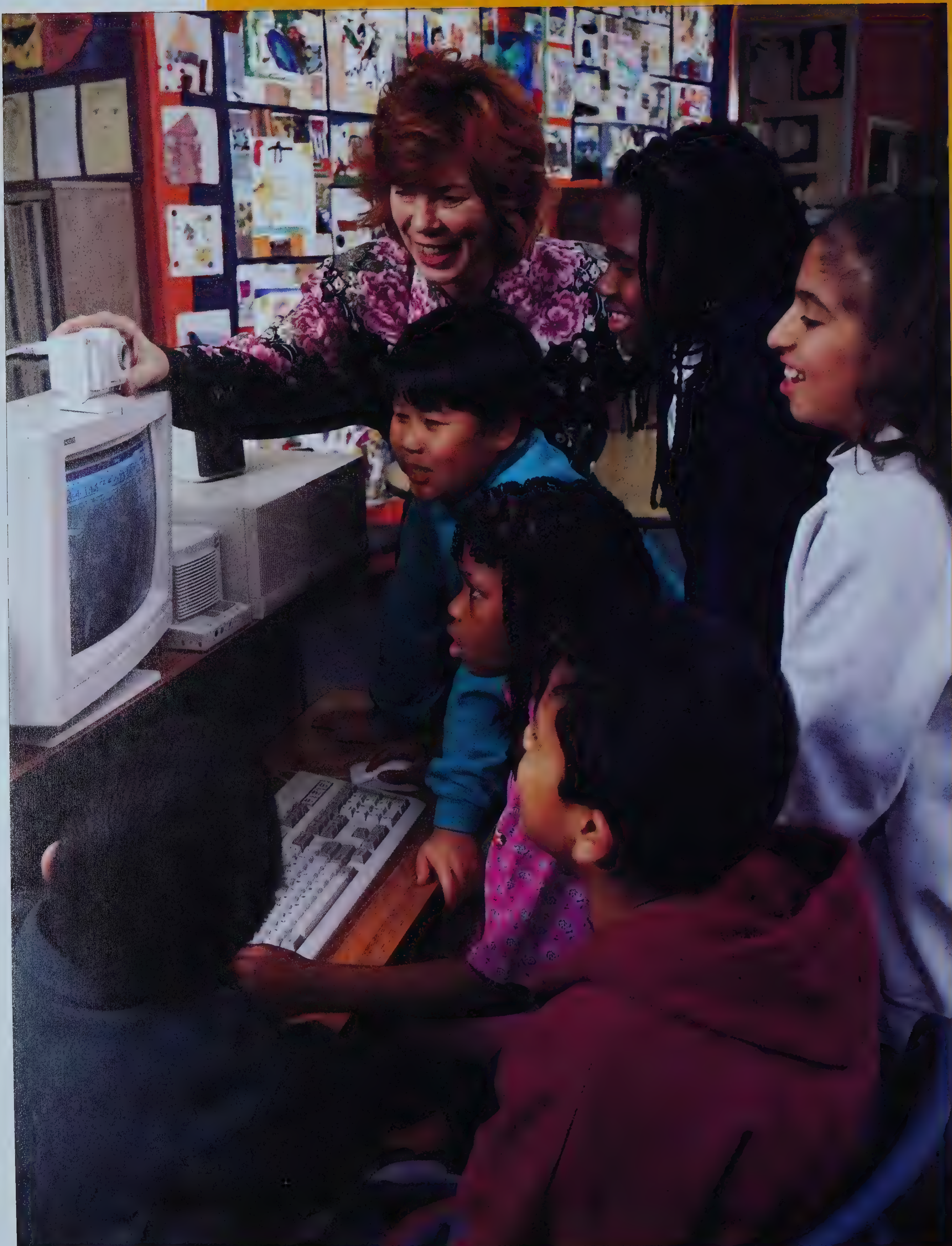


Room with a view

Students traditionally turn toward a window when they want a glimpse of the outside world. Fourth-graders at San Francisco's Bryant Elementary School turn to their AT&T Vistium™ Personal Video Systems.

As participants in "Education First," a school networking initiative sponsored by Pacific Bell, they're linked to 11 other California schools and the county library. Thanks to AT&T multimedia technology and equipment, they can videoconference and share information simultaneously.

This means that when teacher Virginia Davis assigns a book report on dinosaurs, the local librarian can host an on-screen tour of the library's card catalog and tantalize them with full-color, full-motion images of Tyrannosaurus rex. Soon they'll use AT&T-provided software to explore the worldwide Internet computer network.

We've seen the benefits of distance learning in a variety of AT&T-sponsored projects using electronic mail networks: Physically disabled Tennessee teens who can be "just kids" when communicating electronically. Native American students in Montana sharing their Crow heritage with peers in Germany.

Networking has the power to bring down classroom walls and open endless possibilities.

New" issue, it splits a single telephone line into two virtual channels to carry voice and data.

You can even find it in services like AT&T Talking Package Service. Thanks to a creative application of our voice-messaging technology, customers can deliver a personal message, pre-recorded on the AT&T network, to a loved one along with a birthday gift.

Even when an innovation like the AT&T EO 440 Personal Communicator doesn't meet our expectations in the marketplace, it yields valuable insights about customers and technology—insights that form the foundation for the next generation of innovation.

Network Notes℠ makes Lotus Development Corporation's Lotus Notes® computer data-sharing capabilities available on the AT&T network. This means that businesses like Egghead Software can make their catalogs available to AT&T network users, increasing information channels and potential sales.

Growth through Alliances

Our brand power and our experience with corporate alliances serve us well, putting us in a position to attract good partners and forge solid relationships.

Rapid-fire technological and business developments require us to be flexible and fleet of foot. Sometimes the quickest and most cost-effective way to respond is to link our expertise to that of like-minded partners.

Among the many alliances we struck in 1994, several in particular illustrate the value of such relationships in serving customer needs.

We formed the Versit Partnership with Apple, IBM and Siemens to better link computer and telephone systems so people can exchange information and communicate using a variety of devices.

Building on software from other providers, we launched AT&T OneVision™ Network Management Solutions. The open-systems design approach makes it possible for businesses to manage their phone and data systems as one.

Capitalizing on the burgeoning market for interactive services such as movies on demand, in 1994 we also formed a joint venture with visual-computing innovator Silicon Graphics. Together we're developing software and equipment for companies interested in providing interactive services to homes and businesses.

We Keep Our Word

One reason we're confident we can succeed in the global information age is that we know how to set ambitious goals and make good on them. Our financial results are evident on the following pages. Here are some other goals we set for ourselves and how we have performed against them. As a result of our progress against these goals, we begin 1995 in a better position to serve customers and the communities in which we live and work.

Reduce reportable toxic air emissions 95 percent by year-end 1995.

As 1994 began, our toxic air emissions worldwide were 92 percent lower than when we established our goal in 1987. We also met our commitment to phase out ozone-depleting chlorofluorocarbon (CFC) emissions from manufacturing operations — 19 months ahead of schedule.

Recycle 60 percent of our paper by year-end 1994 and reduce our use of paper 15 percent from 1990 levels.

We exceeded our goal before 1994, recycling 63 percent of our waste paper (48 million pounds) and reducing our use of paper by 28 percent.

Improve the diversity profile of our workforce to better serve the needs of our diverse customer base.

Some 35 percent of management employees hired in 1994 were women, and 28 percent, minorities. The representation of these groups in the officer ranks is also up sharply: 12 percent are now women and nearly 10 percent are minorities.

Increase our purchases from U.S. businesses owned by minorities and women by 10 percent.

We surpassed our goal, increasing such purchases by 34 percent while deriving additional sales and savings benefits from these relationships.

Increase our support of community organizations and projects outside the United States in areas where AT&T has a major presence.

In 1994, the AT&T Foundation increased its grants outside the United States by 66 percent, providing $1.3 million to nonprofit and charitable groups in the areas of education, health and human services, and the arts. Worldwide, the Foundation has awarded some $329 million in grants since its inception in 1984. In addition, the AT&T University Equipment Donation Program has supplied $287 million in AT&T computer equipment to colleges and universities since 1984.

Communities are improving early childhood services thanks to an AT&T Foundation-funded project that applies quality principles honed in business.

The merger of AT&T and McCaw is the best and quickest way for the two companies to take advantage of developing opportunities in a dynamic industry.

Financial Section

A Discussion and Analysis of Our Results and Operations

The merger was one of the most important events of 1994 for us. Shareowners now own a stronger AT&T with even better prospects for growth in revenues and earnings. Our customers will choose from a wider array of services.

Though completed, the merger remains subject to legal reviews. In addition, under the terms of a proposed antitrust consent decree between AT&T and McCaw and the United States, the operations of AT&T and McCaw are subject to several conditions, including keeping McCaw as a separate business with its own officers and employees. After McCaw provides equal access connections to other long distance carriers, McCaw may use the AT&T brand on McCaw's cellular services, and AT&T may jointly market AT&T's long distance and McCaw's cellular services, and provide customers with a single bill for both. For the most part, these restrictions merely confirm commitments we made when we announced our merger plans and they do nothing to alter the fundamental logic or economics of the merger.

Operating now as the wireless unit of AT&T, McCaw is the leading U.S. provider of wireless communications services, which include cellular, messaging, data transmission and air-to-ground services. McCaw has cellular operations in more than 100 cities. In most markets McCaw offers its services under the brand name Cellular One®. McCaw also operates the sixth largest U.S. messaging service, serving more than 700,000 customers, and a digital air-to-ground telephone service for commercial airlines and corporate aircraft.

AT&T's Strong Financial Performance

Accelerating revenue growth in products and services, aided by effective cost and expense controls, boosted earnings to another record in 1994. The climate for growth improved this past year because of better economic conditions, and changes in technology and world trade that spurred demand for network services as well as new networks. We look forward to continued growth in revenues and earnings in 1995.

Our financial performance was also strong in 1992 and 1993. Our performance met growth targets despite the less favorable business and economic environment. In 1993 we also had to adopt new accounting methods. Because new rules apply to all U.S. companies, we changed our accounting for retiree benefits, postemployment benefits and income taxes. The net $9.6 billion after-tax charge to bring our financial statements in line with the new accounting methods caused us to report a net loss for that year. But those accounting changes do not affect cash flows; they only change the expenses we report.

In 1994 we achieved revenue growth that matches the 8–10% annual growth of the global information industry as a whole.

In our accounting for *retiree benefits,* we estimate and book expenses during the years employees are working and accumulating future benefits. When we used the former "pay-as-you-go" accounting, we simply booked our contributions to trust funds for life insurance benefits and the actual claims for benefits such as health care and telephone concessions as they occurred.

Our accounting for *postemployment benefits,* including payments for separations and disabilities, is very similar to the accounting for retiree benefits. We book expenses for future separations during the years employees are working and accumulating service with the company and for disability benefits when the disabilities occur. In the former accounting method, we booked expenses for separations when we approved them and for disabilities when we made payments. Compared with 1992, this change increased our costs and expenses by $301 million in 1993, which reduced earnings $171 million, or $0.11 per share.

Our accounting for *income taxes* uses the enacted tax rates to compute both deferred and current income taxes. Using our former method, we held deferred tax assets and liabilities at their original values even when Congress changed the tax rates.

An Overview of Our Business Operations

Our main business is meeting the communications and computing needs of our customers by using networks to move and manage information. We divide the revenues and costs of this business into three categories on our income statement: *telecommunications services, products and systems,* and *rentals and other services.* AT&T Capital Corporation (AT&T Capital) and AT&T Universal Card Services Corp. (Universal Card) are partners with our communications and computing business units as well as innovators in the financial services industry. We include their revenues and costs in a separate category on our income statement: *financial services and leasing.*

Competition in communications and computing is global and increasingly involves multinational firms and partners from different nations. To increase our global presence, we are hiring, building facilities and investing outside the U.S. We believe these commitments of resources are necessary to be successful in these markets. However, the economies of Europe and Japan were very weak in 1992 and 1993, and we restructured some operations in those areas. For these reasons we reported operating losses, in total, for the past three years in our units outside the U.S. Nevertheless, we continue to believe that these operations and markets provide excellent opportunities for future growth in revenues and earnings.

All our business units face stiff competition. Prices and technology are under continual pressure. Such market conditions make the ongoing need for cost controls even more urgent. Managers must continuously assess their resource needs and consider further steps to reduce costs, which could include consolidating facilities, disposing of assets, reducing workforce or withdrawing from markets.

In 1993 one of our business units, AT&T Global Information Solutions Company, offered an early retirement program and a voluntary separation program to its U.S.-based employees. About 2,200 employees accepted the early retirement offer, and the total workforce at the unit has declined by more than 10% since year-end 1993. We also provided reserves in 1993 to restructure and centralize support services for telecommunications services and for other restructuring activities. In total we provided $498 million before taxes in 1993 for restructuring activities.

At year-end 1994 reserves for all restructuring activities amounted to about $900 million, most of which relates to net lease payments to be made over the life of the related leases. We believe the balance of reserves is adequate for the completion of planned activities to improve efficiency as part of our commitment to meet intense competition.

Like other manufacturers, we use, dispose of and clean up substances that are regulated under environmental protection laws. We also have been named a potentially responsible party (PRP) at a number of Superfund sites. At most of these sites, our share is very limited and there are other PRPs who can be expected to contribute to the cleanup costs. We review potential cleanup costs and costs of compliance with environmental laws and regulations regularly. Using engineering estimates of total cleanup costs, we estimate our potential liability for all currently and previously owned properties where some cleanup may be required, including each Superfund site where we are named a PRP. We provide reserves for these potential costs and regularly review the adequacy of our reserves. In addition, we forecast our expenses and capital expenditures for existing and planned compliance programs as part of our regular corporate planning process. Despite these procedures, it is very difficult to estimate the future impact of actions regarding environmental matters, including potential liabilities. However, we believe that cleanup costs and costs related to environmental proceedings and ongoing compliance with present laws will not have a material effect on our future expenditures, annual consolidated financial statements or competitive position beyond that provided for at year-end.

Many of our employees are represented by unions. In 1995 we will negotiate new labor agreements because the 1992 contracts are due to expire on May 27.

Telecommunications Services

These revenues, which include wireless services revenues, grew 4.3% in 1994 and 1.6% in 1993. Volume growth, caused by market share gains among residential customers, strong demand from business customers, new cellular customers and the improved economy, fueled the faster growth in 1994.

Wireless services revenues, including cellular, messaging and air-to-ground services revenues, grew to $2,280 million in 1994 from $1,760 million in 1993 and $1,387 million in 1992, primarily because of the added traffic coming from new customers. Cellular customers served by companies in which AT&T has or shares a controlling interest increased to 4.0 million at year-end 1994, from 3.0 million at the end of 1993 and 2.2 million at the end of 1992.

Billed minutes for switched long distance services rose more than 7.5% in 1994 compared with 5.5% in 1993. Volume growth exceeds revenue growth because many customers are selecting higher-value, lower-priced

Reporting on the Merger

To complete the merger, McCaw's owners exchanged their McCaw stock for 197.5 million shares of newly issued AT&T stock. At the market closing price for AT&T stock on September 19, the official day of the merger, that exchange was worth about $11.5 billion.

We accounted for the merger as a pooling of interests. That means we combined the financial statements for the two companies. We did, however, take out the business between the companies just as we remove dealings between other AT&T units. Now all our financial information shows combined amounts as if we had always been one company.

Eleven-Year Summary of Selected Financial Data

(unaudited)
AT&T Corp. and Subsidiaries

Dollars in millions (except per share amounts)

	1994	1993*	1992	1991*	1990	1989	1988*	1987	1986*	1985	1984
Results of Operations											
Total revenues	**$75,094**	$69,351	$66,647	$64,455	$63,228	$61,604	$62,067	$60,726	$61,975	$63,159	$60,326
Research and development expenses	**3,110**	3,111	2,924	3,114	2,935	3,098	2,988	2,810	2,599	2,527	2,477
Operating income (loss)	**8,030**	6,568	6,628	1,570	5,622	4,931	(2,381)	4,164	978	3,562	2,825
Income (loss) before extraordinary item and cumulative effects of accounting changes	**4,710**	3,702	3,442	171	3,475	2,820	(1,527)	2,374	609	1,856	1,712
Net income (loss)	**4,710**	(5,906)	3,442	171	3,666	2,820	(1,527)	2,374	434	1,856	1,712
Earnings (loss) per common share before extraordinary item and cumulative effects of accounting changes	**3.01**	2.39	2.27	0.12	2.38	1.95	(1.06)	1.61	0.36	1.21	1.14
Earnings (loss) per common share	**3.01**	(3.82)	2.27	0.12	2.51	1.95	(1.06)	1.61	0.24	1.21	1.14
Dividends declared per common share	**1.32**	1.32	1.32	1.32	1.32	1.20	1.20	1.20	1.20	1.20	1.20
Assets and Capital											
Property, plant and equipment–net	**$22,035**	$21,015	$20,798	$19,887	$19,536	$17,653	$16,886	$22,159	$22,247	$23,182	$22,180
Total assets	**79,262**	69,393	66,104	62,071	57,036	45,228	41,945	45,583	44,305	44,824	43,461
Long-term debt including capital leases	**11,358**	11,802	14,166	13,682	14,579	10,116	10,172	9,060	8,234	8,104	8,963
Common shareowners' equity	**17,921**	13,374	20,313	17,973	17,928	15,727	13,694	16,913	15,849	16,945	15,852
Net capital expenditures	**4,853**	4,296	4,328	4,376	4,369	4,162	4,528	3,936	3,977	4,303	3,685
Other Information											
Operating income (loss) as a percentage of revenues	**10.7%**	9.5%	10.0%	2.4%	8.9%	8.0%	(3.8)%	6.9%	1.6%	5.6%	4.7%
Net income (loss) as a percentage of revenues	**6.3%**	(8.5)%	5.2%	0.3%	5.8%	4.6%	(2.5)%	3.9%	0.7%	2.9%	2.8%
Return on average common equity	**29.5%**	(47.1)%	17.6%	0.9%	21.2%	19.1%	(8.9)%	14.3%	2.0%	10.6%	10.4%
Data at year-end:											
Stock price per share	**$50.25**	$52.50	$51.00	$39.125	$30.125	$45.50	$28.75	$27.00	$25.00	$25.00	$19.50
Book value per common share	**$11.42**	$ 8.65	$13.31	$12.05	$12.33	$10.92	$ 9.57	$11.87	$11.04	$11.73	$11.19
Debt ratio	**58.3%**	64.4%	53.1%	54.8%	53.5%	45.0%	45.8%	38.4%	39.6%	39.9%	42.0%
Debt ratio excluding financial services	**34.1%**	49.1%	40.8%	46.0%	47.6%	39.3%	42.2%	35.2%	37.6%	38.4%	41.7%
Employees	**304,500**	317,700	319,000	322,300	333,400	343,000	367,400	366,200	379,900	400,400	427,800

*1993 data reflect a $9.6 billion net charge for three accounting changes.
1991 data reflect $4.5 billion of business restructuring and other charges.
1988 data reflect a $6.7 billion charge due to accelerated digitization of the long distance network.
1986 data reflect $3.2 billion of charges for business restructuring, an accounting change and other items.

services made possible by our increasing efficiency. Although we raised prices on basic services over the past two years, the shift in the mix of services that customers selected reduced average per-minute revenues in 1994 and 1993.

AT&T True USA℠ Savings and AT&T True Rewards℠ offer savings and other benefits to residential customers based on their calling volumes. We also rolled out AT&T *TrueVoice*® service, a patented technology to improve the sound quality on calls placed within the continental U.S. and Canada. Other offers and calling plans now share this theme of offering customers true value. These efforts helped us retain and win back residential customers in 1994, allowing us to recapture some market share for the first time since the breakup of the Bell System in 1984.

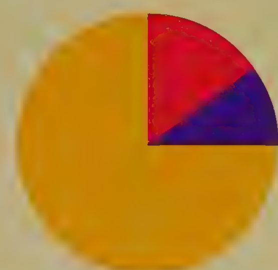
We expect continuing strong volume growth in 1995, leading to further growth in telecommunications services revenues. Several of our initiatives will enhance future network capabilities for communications and computing. For example, since late 1994, Network Notes℠ has enabled customers to access applications and information hosted on the AT&T network that are compatible with the popular Notes groupware software from Lotus Development Corp. Beginning in 1995, Netware Connect℠ services, based on popular networking software from Novell, Inc., will enable users to link computers or use computer-based services through the AT&T network. Through our relationship with Xerox Corp., users will be able to store and transmit high-quality production documents through our network. Our WorldWorx℠ service, developed in cooperation with several major equipment vendors, will permit interactive, multipoint video and data calls. Customers using our PersonaLink℠ service may program "intelligent agents" to sort through, retrieve and monitor desired information on networks.

Total cost of telecommunications services declined both years despite higher volumes, in part because of reduced prices for connecting customers through local networks. In addition, we improved our efficiency in network operations, engineering and operator services. With lower costs and higher revenues, the gross margin percentage rose to 41.8% in 1994 from 39.0% in 1993 and 37.2% in 1992.

Products and Systems

Expansion abroad and into new customer segments, improved global economic conditions and major contract wins raised sales by 18.1% in 1994 and 8.1% in 1993 despite stiff price competition. Sales outside the U.S. grew at a faster rate than U.S. sales and were responsible for more than half the growth both years. We expect sales under major contracts and the continuing economic recovery outside the U.S. in 1995 to pave the way for further growth in revenues.

1994 Sources of Revenue
As Percentages of Total Revenues



Markets and competition in the information industry are increasingly global in scope. Some of the fastest growing markets are outside the U.S.

Revenues from sales of telecommunications network products and systems grew 17.3% in 1994 and 8.5% in 1993. The 1994 increase reflected higher sales across this product line, particularly in switching and transmission systems and wireless products. About $243 million of switching revenues in 1994 came from consolidating A.G. Communication Systems Corporation because AT&T raised its ownership to 80%. The 1993 increase came chiefly from higher sales of wireless products, switching equipment and operations systems. For the last two years, sales grew both inside and outside the U.S.

Spotlight on Some Trends in Telecommunications Services

Competition is changing.

As we look ahead, along with growing opportunities, we see more direct competition for AT&T coming from local telephone, long distance, cable television, wireless and other companies that offer network services. AT&T, as a supplier of networking systems, services and products, will be a supplier as well as a customer and competitor of these firms. There may also be other entrants from the communications and information services industries, such as providers of information systems, who will offer basic or integrated services.

Customers and competitors – present and future – are making acquisitions, merging, and forming joint ventures and alliances to expand their geographic reach, enter new markets and gain scale. Some of the largest cable TV companies, such as Tele-Communications Inc. (TCI) and Time Warner Inc., are clustering cable systems. Cables have more capacity than current phone lines, suiting them for multimedia use. Bell Atlantic Corporation, Nynex Corporation, U S West, Inc. and Airtouch Communications Corp. formed an alliance of their cellular operations to gain a national presence and bid against AT&T and others for radio licenses to provide personal communications services. These licenses are being auctioned by the Federal Communications Commission to get as many as seven wireless competitors in each territory. Sprint Corporation (Sprint), which already competes in local phone service, long distance and cellular markets, is forming a joint venture with cable companies TCI, Comcast Corp. and Cox Enterprises, Inc. to expand its presence in both local and wireless markets.

Several bills were introduced in Congress last year which would have accelerated competition for local access and phone services and permitted the Regional Bell Operating Companies (RBOCs) to offer long distance services under certain conditions. Although none of these bills was enacted, several key members of Congress have introduced or announced plans to introduce new bills during 1995 that would permit competition in local services and set conditions under which the RBOCs would be permitted to offer long distance services and manufacture equipment.

Products and Systems

Dollars in millions	1994	1993	1992
Revenues			
Telecommunications network products and systems	**$ 9,785**	$ 8,345	$ 7,691
Computer products and systems	**4,208**	3,470	3,358
Communications products and systems	**4,494**	3,692	3,279
Microelectronics products, special-design products for U.S. government, and other*	**2,674**	2,418	2,251
Products and systems	**$21,161**	$17,925	$16,579
Gross margin percentage	**37.3%**	38.8%	39.8%

*"Other" is composed principally of media, predominantly for use with automated teller machines and point-of-sale equipment, and business forms.

AT&T was selected for several large projects for network products and systems over the past two years that we believe will lead to many sales opportunities in the years ahead. Pacific Bell and Bell Atlantic Corporation chose AT&T as the major equipment supplier and systems integrator for planned multimedia networks. These two projects alone could generate up to $10 billion in revenues for AT&T over the next seven years. AT&T was also awarded major contracts by other U.S. telephone and cable companies, including Southern New England Telephone Corp. and Time Warner, Inc. Outside the U.S., AT&T won a $4 billion contract with Saudi Arabia and signed a long-term system support agreement, worth about $500 million over five years, with China's Guangdong province government agencies.

Revenues from sales of computer products and systems grew 21.3% in 1994 and 3.3% in 1993. The growth came mainly from higher U.S. sales of workstations, automated teller machines, and mid-range and high-end systems for enterprise-wide computing. Price competition for this product line is very fierce, particularly for personal computers, so revenue growth has lagged behind the gains in volumes. We changed the end of the fiscal year for certain operations located outside the U.S. to December from November in 1994 to report essentially all of our operations on a calendar year. This added $223 million in revenues and a marginal loss in income in 1994. About $113 million of these revenues were from sales of computer products and systems.

Revenues from sales of communications products and systems rose 21.7% in 1994 and 12.6% in 1993. More than half this growth in both years came from higher sales of business communications products and systems. We also had higher sales of consumer communications products—particularly cellular phones—submarine cables and data communications equipment. AT&T Submarine Systems, Inc. and a partner were awarded a $1.2 billion contract to supply and construct the 17,000-mile Fiber Optic Link Around the Globe (FLAG) cable system. This system is scheduled to be completed during 1997. We will manage the entire marine installation and also supply network management equipment.

In total, revenues from sales of microelectronics products, special-design products for the federal government, and other products and systems grew 10.6% in 1994 and 7.4% in 1993. Growth in both years came mainly from higher sales of microelectronics components and power systems to equipment manufacturers outside the U.S. Sales of media and business forms rose slightly in 1994, but were steady in 1993. Because of reduced defense spending by the U.S. government, sales of special-design products, such as secure phones, declined both years.

We sold several smaller operating units in 1994 and arranged to sell NCR Microelectronics and are negotiating to sell a copper cable unit in early 1995. These sales will reduce our revenues, as well as our costs and expenses, by about $1 billion a year. Most of the revenues related to product sales, about half in the microelectronics products category.

The increase in cost of products and systems is mainly associated with the higher sales volumes both years. The declining gross margin percentage reflects pricing pressures and a changing product sales mix.

Some of the RBOCs are also seeking this same kind of permission through the courts. They requested relief from the decree that broke up the Bell System – the Modification of Final Judgment of 1982 – including provisions that bar the RBOCs from offering long distance services and manufacturing equipment. We believe the RBOCs must face real competition for their local business before getting the permission they seek. Absent local competition they could use their bottleneck control over connections to customers to disadvantage competitors.

It is not possible to predict the timing, course and circumstances of changes that may come from technology, new alliances, regulation and legislation. We set a high priority on anticipating these changes and positioning AT&T for future success. However, depending on their exact nature and timing, such changes could affect our future revenues and earnings adversely.

Competition will be global, as legal monopolies disappear in other countries.

Mexico will open to competition beginning in late 1996. We are working with Grupo Alfa to plan a joint venture to compete there. Other U.S. companies – including MCI Communications Corp. (MCI), Sprint and GTE Corporation – have or plan alliances with Mexican companies to compete in telecommunications services.

The European Union is scheduled to be open fully to competition beginning in 1998, but some changes are coming sooner. At year-end 1994 we were granted a license to provide switched voice and data services and private lines within the United Kingdom (U.K.) and to resell services between the U.K. and other countries. To better serve multinational businesses in Europe, we plan a joint venture with the Unisource consortium founded by PTT Telecom Netherlands, Swiss Telecom PTT and Telia of Sweden. Telefónica de España will also become a member. The new joint venture would then replace Unisource as the European partner in the AT&T-sponsored WorldPartners seamless global services alliance begun in 1993. British Telecommunications plc (BT) took a 20% stake in MCI in 1994, and they jointly formed a venture to compete in this same market sector.

Germany's Deutsche Telekom AG and France Telecom each seek approval to buy a 10% stake in Sprint, securing entry to the U.S. market similar to that of BT. We oppose their plans because the French and German telecommunications services markets remain fundamentally closed.

Rentals and Other Services

These revenues grew the last three years. The growth in 1994 came mainly from communications equipment maintenance contracts and professional services for computer products and systems. In 1993 we saw higher revenues from newer telecommunications services, such as network management and satellite services, which individually generate small revenue streams. In both years these increases more than offset the continuing, expected decline in communications equipment rentals.

Rentals and Other Services

Dollars in millions	1994	1993	1992
Revenues			
Computer products and systems	**$2,818**	$2,641	$2,742
Communications products and systems rentals	**955**	1,174	1,409
Communications products and systems services	**1,680**	1,457	1,375
Other*	**1,938**	2,027	1,680
Rentals and other services	**$7,391**	$7,299	$7,206
Gross margin percentage	**50.9%**	51.2%	53.3%

*"Other" is composed principally of global messaging and electronic mail services, telemarketing services, information technology services and facility rentals.

The shift in revenue mix from rentals to lower-margin services reduced the gross margin percentage. Also, provisions for business restructuring added $90 million to cost of rentals and other services in 1993.

Financial Services and Leasing

These revenues rose 24.5% in 1994 and 32.2% in 1993. Both Universal Card and AT&T Capital contributed to the growth by profitably expanding their portfolios of earning assets. We expect continuing growth in these revenues, earnings and assets in 1995.

Financial Services and Leasing

In millions	1994	1993	1992
Revenues			
AT&T Capital	**$ 1,384**	$ 1,360	$ 1,266
Universal Card	**1,782**	1,228	831
Eliminations, adjustments and other*	**(49)**	(84)	(203)
Financial services and leasing	**$ 3,117**	$ 2,504	$ 1,894
Gross margin percentage	**31.0%**	31.7%	30.8%
Universal Card Information:			
Finance receivables	**$12,380**	$ 9,154	$ 6,606
Accounts	**15.1**	11.7	10.3

*"Other" is composed principally of revenues from certain lease finance assets AT&T retained when AT&T Capital was reorganized.

Universal Card rose to fourth in its industry in 1994 measured by cardmember receivables. During the year it began its Something Extra℠ program, which offers customers rewards for outstanding balances as well as new purchases. Other promotions have convinced customers to transfer balances from the credit card accounts held with competitors. These programs and our highly regarded customer service contributed to the 35.2% increase in outstanding cardholder receivables in 1994 and 38.6% increase in 1993. We set reserves for losses based on experience and the future outlook for the economy.

AT&T Capital completed an initial public offering of its common stock in August 1993, emerging as the largest publicly owned equipment leasing and financing company in the U.S. AT&T still owns about 86% of the stock, so AT&T Capital is still fully consolidated in our financial statements. AT&T Capital limits its exposure to credit risks by diversifying its business across customers, geographic locations and lease maturities. It determines its allowance for credit losses by analyzing previous experience on losses, current delinquencies, and present and future economic conditions. We unconditionally guaranteed all of AT&T Capital's debt outstanding at the end of March 1993. Since then, all AT&T Capital debt has been issued using its own credit. This change makes AT&T Capital financially independent and permits us to focus on the financing needs of our main business.

The growth in cost of financial services and leasing over the last two years is associated mostly with the growth in financing activity. The improved gross margin percentage in 1993 mainly reflects the maturation of the credit card receivables portfolio. Lower interest rates in 1993 also contributed to the margin improvement that year, but rising interest rates in 1994 narrowed our margins.

By 1995 we must change our accounting on loans to customers. Under new rules we must compute the present value of principal and interest payments for troubled loans that may not be fully repaid. Our current methods do not require present value calculations, but we do not expect this change to affect our costs materially.

Operating Expenses

Selling, general and administrative expenses increased 8.9% in 1994 and 8.0% in 1993, largely because of spending for advertising and promotions, and for sales and sales support activities. We focused particularly on retaining and winning back residential customers of telecommunications services and acquiring new cellular customers. We expect marketing expenses will continue to grow because of competitive conditions. The 1993 total also includes $373 million in provisions for business restructuring activities, and the 1994 total includes $246 million of expenses related to the merger of AT&T and McCaw.

Research and development expenses were level in 1994 but increased 6.4% in 1993. The higher spending of the last two years was mainly for work on cellular technology, advanced communications services and devices, and projects aimed at international growth.

Other Income Statement Items

Other income – net depends mostly on our cash balance, investments and joint ventures, and sales of assets. We also deducted dividends on preferred stock of a subsidiary in other income before we redeemed this stock in mid-1994.

Interest income declined over the past two years, and in 1993 we saw a decline in income related to investments and joint ventures. Material pretax gains and losses also affected other income – net:

- In 1994 there were no material transactions. Asset sales and various other immaterial gains more than offset losses from the shutdown of EO Inc. and the uninsured portion of a lost telecommunications satellite.
- In 1993 we had a $217 million gain when we exchanged our remaining 77% interest in UNIX System Laboratories, Inc. for stock in Novell, Inc.
- Because of declines in its market value, we wrote down our investment in Compagnie Industriali Riunite S.p.A. by $68 million in 1992. We sold our remaining interest in that investment in 1993 for a slight gain.

Interest expense declined over the past two years because of benefits from refinancing long-term debt at favorable rates. Reduced requirements for contingent liabilities also contributed about half the decline in 1993.

The provisions for income taxes increased the past two years mainly because of higher "book income," that is, the income before income taxes and cumulative effects of accounting changes. The effective tax rate declined to 37.3% in 1994, from 38.3% in 1993 and 39.0% in 1992, due to credits for foreign tax payments and the effect on deferred taxes from redeeming preferred stock. These benefits were somewhat offset by the nondeductibility of some merger-related expenses.

Congress increased the federal statutory tax rate to 35% in August 1993 and made the change retroactive to January 1, 1993. We recognized a $23 million benefit from adjusting our net deferred tax assets for the new rate. However, this benefit was more than offset by the increase in income taxes due to the new rate.

Total Assets, Working Capital and Liquidity

We raised our cash balance in 1994 so we could act quickly on new opportunities outside the U.S. and because of some pending reinvestments in projects. However, we continue to target a cash balance of about $800 million. The higher cash balance as well as higher inventories and receivables, which are primarily associated with the growth in revenues, boosted net working capital to $6.7 billion at the end of 1994 from $4.3 billion at the end of 1993.

We turned over our inventory 3.4 times in 1994, the same turnover rate as 1993. Accounts receivable for our communications and computing business were outstanding an average of 56.4 days in 1994, about the same as in 1993.

Net property, plant and equipment and net licensing costs rose because of normal purchasing activity.

A 52%-owned subsidiary of McCaw, LIN Broadcasting Corporation (LIN), exchanged its investment in the A Block Philadelphia cellular system for all the outstanding redeemable preferred stock of one of its subsidiaries. In addition, AT&T sold its remaining 20% interest in Italtel S.p.A back to STET S.p.A., the Italian government's telecommunications holding company. These transactions led to a decline in investments during the year.

We also changed the way we report and account for investments in equity securities that have readily determinable fair values and in all debt securities. Starting in 1994 we account for the fair values of these securities rather than our original investment. This change did not affect our earnings or financial position materially.

The fair value of our pension plan assets is greater than our projected pension obligations. We record pension income when our expected return on plan assets plus amortization of the transition asset (created by our 1986 adoption of the current standard for pension accounting) is greater than the interest cost on our projected benefit obligation plus service cost for the year. Consequently, we had pension income that added to our prepaid pension costs in 1994.

The increase in other assets mainly reflects the advanced purchase of rewards, such as frequent flyer miles and merchandise certificates to be given to consumers who earn sufficient points to claim them under our calling plans. At the same time, we accrued a liability for the unredeemed points earned under our calling plans, which led to higher other current liabilities.

Higher accounts payable and payroll and benefit-related liabilities are mainly due to increases in the associated expenses and benefit costs.

We issued more debt in 1994, mainly short-term financing, for financial services and for higher inventories and receivables.

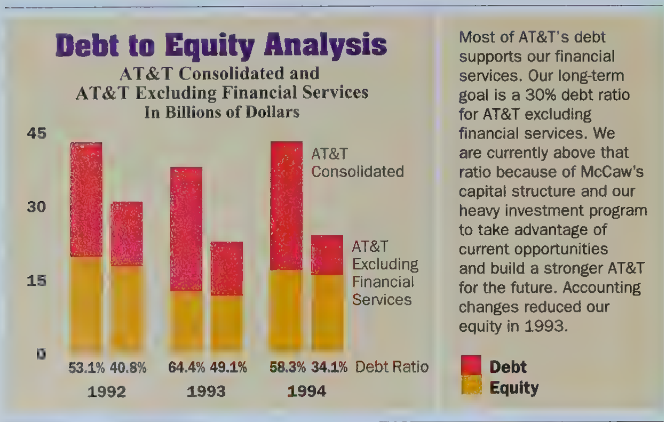
Contributions to trusts for retiree benefits led to the decline in related liabilities. We redeemed all of LIN's outstanding preferred stock, which increased additional paid-in capital and minority interests.

Operating cash flows increased in 1994 mainly because of higher income. The decline in 1993 was mainly due to working capital requirements such as inventories and accounts receivable. For the three years operating cash flows covered our additions to property, plant and equipment and dividend payments. We expect operating cash flows to continue covering usual capital expenditures and dividends in 1995. However, as discussed in the next section, we may have broader capital requirements in 1995 which may require additional external financing.

Investing Activities

Most of our capital expenditures support telecommunications network services, providing for growth in traffic, modernization and enhanced reliability. Other capital additions include the equipment and facilities used in leasing operations, manufacturing, and research and development. We expect our net capital expenditures to continue rising in 1995.

We plan substantial investments to expand and enhance our cellular network in 1995. We are also bidding on broad-band personal communication services (PCS) radio licenses to provide wireless telephone service in 30 of 51 major trading areas in the U.S. The Federal Communications Commission (FCC) auction began on December 5, 1994. It is not possible to predict the outcome of the auction or the amounts successful bidders will be required to



pay in order to win licenses as about 30 companies have made deposits and are eligible for bidding. In the event AT&T is successful in obtaining one or more licenses, substantial expenditures could be required for the licenses and for constructing associated systems.

Under an agreement between McCaw and LIN, a process, using third party appraisers, began on January 1, 1995 to determine the private market value per share of LIN. The private market value is the price per share, including control premium, that an unrelated third party would pay if it were to acquire all the outstanding shares of LIN, including the shares held by McCaw, in an arm's-length transaction and assuming LIN was being sold in a manner designed to attract all possible participants and to maximize shareholder value. After the price is determined, McCaw will have 45 days to decide whether to proceed with the acquisition of all the public shares at that price, subject to the approval of the LIN public shareholders. AT&T and McCaw have not made any decision as to whether McCaw should proceed with an acquisition of the LIN public shares. If the private market price is set at a level that AT&T and McCaw believe is reasonable, AT&T and McCaw expect that McCaw would seek to proceed with an acquisition. Any such acquisition would involve a substantial capital expenditure. If the private market price is set at a level that AT&T and McCaw believe is not reasonable, AT&T and McCaw expect that McCaw would not proceed with an acquisition. If McCaw does not proceed with an acquisition, the agreement provides that McCaw will put LIN in its entirety up for sale under the direction of the LIN independent directors.

In 1994 we agreed to acquire Alascom, one of Alaska's long distance companies, for $290 million. This agreement is subject to approval by the Alaska Public Utilities Commission and the FCC.

We also plan substantial expenditures to increase our presence outside the U.S. in 1995. For example, we signed a memorandum of understanding in 1994 with Grupo Alfa, a leading Mexican company, to explore the feasibility of a joint venture to compete in telecommunications services in Mexico when the market is opened to competition beginning in late 1996. The capital requirements of such a joint venture are not currently known, but we estimate that as much as $1 billion of capital might be required over a 4- to 6-year period. Our share of the joint venture would be 49%. We also signed an agreement in principle with Unisource, a consortium of European telecommunications companies, to form a joint venture to compete in Europe, meeting the communications needs of multinational business customers. Our ownership of the venture would be 40%. At the formation, the venture would have $200 million of assets, but these assets and our investment would be likely to grow.

We also signed a broad set of business agreements in 1994 with the People's Republic of China to provide technologies, products and services to modernize its telecommunications infrastructure. Those agreements call for us to invest more than $150 million over two years.

Our investments in finance receivables, particularly credit card receivables, are required to support further growth in revenues and earnings from our financial services businesses.

Financing Activities and Capitalization

Capital requirements due to the growth of our financial services and leasing business will continue to grow in 1995.

Much of the financing activity shown on our cash flows statement relates to refinancing activities. For example, in 1992 and 1993 we took advantage of favorable levels of interest rates to extend debt maturities by refinancing a substantial amount of long-term debt. In 1994 we refinanced McCaw's debt.

In the normal course of our business, we use certain derivative financial instruments, mainly interest rate contracts and foreign currency exchange rate contracts for purposes other than trading. The interest rate contracts allow us to limit the effects of changing interest rates and protect our margins on existing transactions. The foreign currency contracts and options allow us to manage our exposure to changing currency exchange rates. We design our credit policies to limit the risks of dealing with other parties to these instruments. In our view, the risks to AT&T from our use of these derivative financial instruments are small and our benefits include more stable earnings in periods when interest rates or currency exchange rates are changing.

For the past three years we have issued new shares of common stock in our shareowner and employee plans. The dilution in earnings per share from these new issuances was not material.

We sell equity interests in AT&T subsidiaries only when opportunities or circumstances warrant. We have no current plans to sell material interests in subsidiaries.

The ratio of total debt and preferred stock to total capital (total debt, preferred stock and equity) declined to 58.3% at December 31, 1994, compared with 64.4% at December 31, 1993, primarily because of higher equity from 1994 earnings. Excluding financial services and leasing operations, the debt ratio declined to 34.1% at December 31, 1994, compared with 49.1% at December 31, 1993.

Report of Management

Management is responsible for the preparation, integrity and objectivity of the financial statements and all other financial information included in this report. Management is also responsible for maintaining a system of internal controls as a fundamental requirement for the operational and financial integrity of results.

The financial statements, which reflect the consolidated accounts of AT&T and subsidiaries, and other financial information shown were prepared in conformity with generally accepted accounting principles. Estimates included in the financial statements were based on judgments of qualified personnel.

To maintain its system of internal controls, management carefully selects key personnel and establishes the organizational structure to provide an appropriate division of responsibility. We believe it is essential to conduct business affairs in accordance with the highest ethical standards as set forth in the AT&T Code of Conduct. These guidelines and other informational programs are designed and used to ensure that policies, standards and managerial authorities are understood throughout the organization. Our internal auditors monitor compliance with the system of internal controls by means of an annual plan of internal audits. On an ongoing basis, the system of internal controls is reviewed, evaluated and revised as necessary in light of the results of constant management oversight, internal and independent audits, changes in AT&T's business and other conditions.

Management believes that the system of internal controls, taken as a whole, provides reasonable assurance that (1) financial records are adequate and can be relied upon to permit the preparation of financial statements in conformity with generally accepted accounting principles, and (2) access to assets occurs only in accordance with management's authorizations.

The Audit Committee of the Board of Directors, which is composed of directors who are not employees, meets periodically with management, the internal auditors and the independent auditors to review the manner in which these groups of individuals are performing their responsibilities and to carry out the Audit Committee's oversight role with respect to auditing, internal controls and financial reporting matters. Periodically, both the internal auditors and the independent auditors meet privately with the Audit Committee. These auditors also have access to the Audit Committee and its individual members at any time.

The financial statements in this annual report have been audited by Coopers & Lybrand, L.L.P., Independent Auditors. Their audits were conducted in accordance with generally accepted auditing standards and include consideration of the internal control structure and selective tests of transactions. Their report follows.

Richard W. Miller Executive Vice President, Chief Financial Officer	Robert E. Allen Chairman of the Board, Chief Executive Officer

Report of Independent Auditors

To the Shareowners of AT&T Corp.:

We have audited the consolidated balance sheets of AT&T Corp. and subsidiaries (AT&T) at December 31, 1994 and 1993, and the related consolidated statements of income and cash flows for the years ended December 31, 1994, 1993 and 1992. These financial statements are the responsibility of AT&T's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AT&T at December 31, 1994 and 1993, and the consolidated results of their operations and their cash flows for the years ended December 31, 1994, 1993 and 1992, in conformity with generally accepted accounting principles.

As discussed in Note 2 to the financial statements, in 1993 AT&T changed its methods of accounting for postretirement benefits, postemployment benefits and income taxes.

Coopers & Lybrand LLP

1301 Avenue of the Americas
New York, New York
January 24, 1995

Consolidated Statements of Income

AT&T Corp. and Subsidiaries, Years Ended December 31

Dollars in millions (except per share amounts)	**1994**	1993	1992
Sales and Revenues			
Telecommunications services	**$43,425**	$41,623	$40,968
Products and systems	**21,161**	17,925	16,579
Rentals and other services	**7,391**	7,299	7,206
Financial services and leasing	**3,117**	2,504	1,894
Total revenues	**75,094**	69,351	66,647
Costs			
Telecommunications services			
Access and other interconnection costs	**17,797**	17,772	18,186
Other costs	**7,466**	7,623	7,553
Total telecommunications services	**25,263**	25,395	25,739
Products and systems	**13,273**	10,966	9,976
Rentals and other services	**3,629**	3,563	3,366
Financial services and leasing	**2,152**	1,711	1,310
Total costs	**44,317**	41,635	40,391
Gross margin	**30,777**	27,716	26,256
Operating Expenses			
Selling, general and administrative expenses	**19,637**	18,037	16,704
Research and development expenses	**3,110**	3,111	2,924
Total operating expenses	**22,747**	21,148	19,628
Operating income	**8,030**	6,568	6,628
Other income – net	**236**	476	163
Loss on sale of stock by subsidiary	—	9	—
Interest expense	**748**	1,032	1,153
Income before income taxes and cumulative effects of accounting changes	**7,518**	6,003	5,638
Provision for income taxes	**2,808**	2,301	2,196
Income before cumulative effects of accounting changes	**4,710**	3,702	3,442
Cumulative effects on prior years of changes in accounting for:			
Postretirement benefits (net of income tax benefit of $4,294)	—	(7,023)	—
Postemployment benefits (net of income tax benefit of $681)	—	(1,128)	—
Income taxes	—	(1,457)	—
Cumulative effects of accounting changes	—	(9,608)	—
Net Income (Loss)	**$ 4,710**	$ (5,906)	$ 3,442
Weighted average common shares outstanding (millions)	**1,564**	1,547	1,519
Per Common Share:			
Income before cumulative effects of accounting changes	**$ 3.01**	$ 2.39	$ 2.27
Cumulative effects of accounting changes	—	(6.21)	—
Net Income (Loss)	**$ 3.01**	$ (3.82)	$ 2.27

The notes on pages 33 through 43 are an integral part of the consolidated financial statements.

Consolidated Balance Sheets

AT&T Corp. and Subsidiaries at December 31

Dollars in millions (except per share amount)	1994	1993
Assets		
Cash and temporary cash investments	**$ 1,208**	$ 671
Receivables, less allowances of $1,251 and $1,040		
Accounts receivable	**13,671**	12,294
Finance receivables	**14,952**	11,370
Inventories	**3,633**	3,222
Deferred income taxes	**3,030**	2,079
Other current assets	**1,117**	732
Total current assets	**37,611**	30,368
Property, plant and equipment – net	**22,035**	21,015
Licensing costs – net	**4,251**	3,995
Investments	**2,708**	3,060
Finance receivables	**4,513**	3,815
Prepaid pension costs	**4,151**	3,575
Other assets	**3,993**	3,565
Total assets	**$79,262**	$69,393
Liabilities and Deferred Credits		
Accounts payable	**$ 6,011**	$ 4,853
Payroll and benefit-related liabilities	**4,105**	3,802
Postretirement and postemployment benefit liabilities	**1,029**	1,301
Debt maturing within one year	**13,666**	11,063
Dividends payable	**518**	448
Other current liabilities	**5,601**	4,587
Total current liabilities	**30,930**	26,054
Long-term debt including capital leases	**11,358**	11,802
Postretirement and postemployment benefit liabilities	**8,754**	9,083
Other liabilities	**4,285**	4,363
Deferred income taxes	**3,913**	2,231
Unamortized investment tax credits	**232**	270
Other deferred credits	**776**	263
Total liabilities and deferred credits	**60,248**	54,066
Minority interests	**1,093**	648
Redeemable preferred stock	**—**	1,305
Common Shareowners' Equity		
Common shares par value $1 per share	**1,569**	1,547
Authorized shares: 2,000,000,000		
Outstanding shares: 1,569,006,000 at December 31, 1994; 1,546,518,000 at December 31, 1993		
Additional paid-in capital	**15,825**	14,324
Guaranteed ESOP obligation	**(305)**	(355)
Foreign currency translation adjustments	**145**	(32)
Retained earnings (deficit)	**687**	(2,110)
Total common shareowners' equity	**17,921**	13,374
Total liabilities and shareowners' equity	**$79,262**	$69,393

The notes on pages 33 through 43 are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

AT&T Corp. and Subsidiaries, Years Ended December 31

Dollars in millions	1994	1993	1992
Operating Activities			
Net income (loss)	**$ 4,710**	$(5,906)	$ 3,442
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effects of accounting changes	**—**	9,608	—
Depreciation and licensing cost amortization	**4,039**	4,082	3,825
Provision for uncollectibles	**1,929**	1,665	1,983
(Increase) in accounts receivable	**(2,672)**	(2,211)	(1,577)
(Increase) decrease in inventories	**(392)**	(444)	549
Increase (decrease) in accounts payable	**1,125**	(295)	46
Net (increase) decrease in other operating assets and liabilities	**(356)**	(1,272)	(1,595)
Other adjustments for noncash items – net	**573**	2,197	1,363
Net cash provided by operating activities	**8,956**	7,424	8,036
Investing Activities			
Capital expenditures net of proceeds from sale or disposal of property, plant and equipment of $451, $241 and $250	**(4,853)**	(4,296)	(4,328)
Increase in finance receivables, net of lease-related repayments of $3,384, $3,512 and $3,316	**(4,616)**	(3,484)	(3,878)
Net (increase) decrease in investments	**(159)**	(453)	33
Acquisitions, net of cash acquired	**144**	(228)	(308)
Other investing activities – net	**(271)**	(204)	(125)
Net cash used in investing activities	**(9,755)**	(8,665)	(8,606)
Financing Activities			
Proceeds from long-term debt issuance	**6,134**	4,386	3,368
Retirements of long-term debt	**(5,637)**	(5,879)	(3,732)
Issuance of common shares	**976**	1,053	703
Dividends paid	**(1,870)**	(1,774)	(1,748)
Increase in short-term borrowings – net	**1,747**	2,586	1,341
Other financing activities – net	**(36)**	25	(162)
Net cash provided by (used in) financing activities	**1,314**	397	(230)
Effect of exchange rate changes on cash	**22**	3	26
Net increase (decrease) in cash and temporary cash investments	**537**	(841)	(774)
Cash and temporary cash investments at beginning of year	**671**	1,512	2,286
Cash and temporary cash investments at end of year	**$ 1,208**	$ 671	$ 1,512

The notes on pages 33 through 43 are an integral part of the consolidated financial statements.

1. Summary of Significant Accounting Policies

Consolidation

Ownership of affiliates	*Accounting method*
More than 50%	Fully consolidated
20% to 50%	Equity method
Less than 20%	Cost method

The fiscal year of essentially all AT&T operations ends December 31.

Currency Translation

For operations outside of the U.S. that prepare financial statements in currencies other than the U.S. dollar, we translate income statement amounts at average exchange rates for the year, and we translate assets and liabilities at year-end exchange rates. We show these translation adjustments as a separate component of shareowners' equity.

Revenue Recognition

Revenue from	*Basis of recognition*
Telecommunications Services	Minutes of traffic processed and contracted fees
Products and Systems	Upon performance of contractual obligations
Rentals and Other Services	Proportionately over contract period or as services are performed
Financial Services and Leasing	Over the life of the finance receivables using the interest method, or straight-line over life of operating lease

Software Production Costs

Until technological feasibility is established, we expense as incurred the costs of developing computer software that we plan to sell, lease or otherwise market. After that time, we capitalize the remaining software production costs and amortize them to costs over the estimated period of sales and revenues.

Interest Expense

Interest expense is the interest on short-term and long-term debt and accrued liabilities, excluding the interest related to our financial services operations, which is included in cost of financial services and leasing, and net of interest capitalized in connection with construction.

Investment Tax Credits

For financial reporting purposes, we amortize investment tax credits as a reduction to the provision for income taxes over the useful lives of the property that produced the credits.

Earnings per Share

We use the weighted average number of shares of common stock and common stock equivalents outstanding during each period to compute earnings per common share. Common stock equivalents are stock options that we assume to be exercised for the purposes of this computation.

Temporary Cash Investments

We consider temporary cash investments to be cash equivalents for cash flow reporting purposes. They are highly liquid and have original maturities generally of three months or less.

Inventories

We state inventories at the lower of cost or market. We determine cost principally on a first-in, first-out (FIFO) basis.

Property, Plant and Equipment

We state property, plant and equipment at cost and determine depreciation using either the group or unit method. The unit method is used primarily for factory facilities, laboratory equipment, large computer systems, and certain international earth stations and submarine cables. The group method is used for most other depreciable assets. When we sell assets that were depreciated using the unit method, we include the gains or losses in operating results. When we sell or retire plant that was depreciated using the group method, we deduct the original cost from the plant account and from accumulated depreciation.

We use accelerated depreciation methods for factory facilities and digital equipment used in the telecommunications network, except switching equipment placed in service before 1989. All other plant and equipment is depreciated on a straight-line basis.

In our wireless services unit, depreciation is computed using the straight-line method over the estimated useful lives of the assets, which are generally 10 to 12 years for cellular, 2 to 12 years for messaging, 3 to 12 years for air-to-ground and 3 to 5 years for other equipment. Leasehold improvements are amortized using the straight-line method over the terms of the leases.

Licensing Costs

Licensing costs represent costs incurred to develop or acquire cellular and messaging licenses. Generally, amortization begins with the commencement of service to customers and is computed using the straight-line method over a period of 40 years.

Goodwill

Goodwill is the difference between the purchase price and the fair value of net assets acquired in business combinations treated as purchases. We amortize goodwill on a straight-line basis over the periods benefited, principally in the range of 10 to 40 years.

Reclassifications

We reclassified certain amounts for previous years to conform with the 1994 presentation.

2. Changes in Accounting Principles

Postretirement Benefits

We adopted Statement of Financial Accounting Standards (SFAS) No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," effective January 1, 1993. This standard requires us to accrue estimated future retiree benefits during the years employees are working and accumulating these benefits. Previously, we expensed health care benefits as claims were incurred and life insurance benefits as plans were funded.

We also reimburse the divested regional Bell companies for a portion of their costs to provide health care benefits, increases in pensions and other benefits to predivestiture retirees under the terms of the Divestiture Plan of Reorganization. Through 1992 we expensed these reimbursements as incurred.

We recorded a one-time pretax charge for the unfunded portions of these liabilities of $11,317 million ($7,023 million or $4.54 per share after taxes). Apart from these cumulative effects on prior years of the accounting change, our change in accounting had no material effect on net income and it does not affect cash flows.

Postemployment Benefits

We also adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits," effective January 1, 1993. Analogous to SFAS No. 106, this standard requires us to accrue for estimated future postemployment benefits, including separation payments, during the years employees are working and accumulating these benefits, and for disability payments when the disabilities occur. Before this change in accounting, we recognized costs for separations when they were approved and disability benefits when they were paid.

We recorded a one-time pretax charge for the unprovided portion of these liabilities of $1,809 million ($1,128 million or $0.73 per share after taxes). The change in accounting reduced operating income by $301 million and net income by $171 million ($0.11 per share) in 1993. This change does not affect cash flows.

Income Taxes

We also adopted SFAS No. 109, "Accounting for Income Taxes," effective January 1, 1993. Among other provisions, this standard requires us to compute deferred tax amounts using the enacted corporate income tax rates for the years in which the taxes will be paid or refunds received. Before 1993 our deferred tax accounts reflected the rates in effect when we made the deferrals.

The adoption of this standard reduced net income by $1,457 million ($0.94 per share) as a result of deferred liabilities that were created by McCaw Cellular Communications, Inc. acquisitions prior to the merger. Apart from these cumulative effects on prior years of the accounting change, the new accounting method had no material effect on net income in 1993. Unless Congress changes tax rates, we do not expect this change to affect net income materially in future periods. This change does not affect cash flows.

3. Prospective Accounting Changes

Impaired Loans

In 1995 we must adopt SFAS No. 114, "Accounting by Creditors for Impairment of a Loan." This standard requires us to compute present values for impaired loans when determining our allowances for credit losses. We do not expect this new standard to affect net income materially at or after adoption, and it will not affect cash flows.

4. Merger with McCaw Cellular Communications, Inc. (McCaw)

On September 19, 1994, AT&T merged with McCaw. As a result, 197.5 million shares of McCaw common stock were converted into shares of AT&T common stock at an exchange ratio of one share of AT&T common stock for each McCaw share. In addition, AT&T assumed 11.3 million McCaw stock options which were converted into AT&T stock options at the same exchange ratio, resulting in 11.3 million additional AT&T stock options at an average exercise price of $27.43. The merger was accounted for as a pooling of interests, and the consolidated financial statements were restated for all periods prior to the merger to include the accounts and operations of McCaw. Intercompany transactions prior to 1994 were not eliminated due to immateriality. Merger-related expenses of $246 million incurred in 1994 ($187 million net of taxes) were reported as selling, general and administrative expenses. Certain reclassifications were made to McCaw's accounts to conform to AT&T's presentation. Premerger operating results of the companies in the current presentation were:

Dollars in millions	**Nine Months Ended September 30, 1994**	Year Ended December 31, 1993	1992
Sales and Revenues			
AT&T	**$52,178**	$67,156	$64,904
McCaw	**2,062**	2,195	1,743
Eliminations	**(256)**	—	—
Total	**$53,984**	$69,351	$66,647
Net Income (Loss)			
AT&T	**$ 3,431**	$ (3,794)	$ 3,807
McCaw	**34**	(2,112)*	(365)
Eliminations	**(93)**	—	—
Total	**$ 3,372**	$ (5,906)	$ 3,442

*Includes a charge of $45 million previously reported as an extraordinary item for the early redemption of debt.

5. Supplementary Financial Information

Supplementary Income Statement Information

Dollars in millions	1994	1993	1992
Included in costs			
Amortization of software production costs	**$ 370**	$ 359	$ 315
Amortization of licensing costs	**115**	108	105
Cost of financial services and leasing			
Interest expense	**$ 725**	$ 506	$ 485
Depreciation, provision for losses, etc.	**1,427**	1,205	825
Cost of financial services and leasing	**$2,152**	$1,711	$1,310
Included in selling, general and administrative expenses			
Amortization of goodwill	**$ 97**	$ 89	$ 80
Other income – net			
Interest income	**$ 80**	$ 141	$ 167
Royalties and dividends	**30**	59	48
Minority interests in earnings of subsidiaries	**(64)**	(9)	40
Miscellaneous – net	**190**	285	(92)
Other income – net	**$ 236**	$ 476	$ 163
Deducted from interest expense			
Capitalized interest	**$ 47**	$ 72	$ 62

Supplementary Balance Sheet Information

Dollars in millions at December 31	1994	1993
Inventories		
Completed goods	**$ 2,022**	$ 1,927
Work in process and raw materials	**1,611**	1,295
Inventories	**$ 3,633**	$ 3,222
Property, plant and equipment		
Land and improvements	**$ 761**	$ 757
Buildings and improvements	**9,240**	8,608
Machinery, electronic and other equipment	**35,981**	33,930
Total property, plant and equipment	**45,982**	43,295
Less: Accumulated depreciation	**23,947**	22,280
Property, plant and equipment – net	**$22,035**	$21,015
Investments		
Accounted for by the equity method	**$ 2,314**	$ 2,603
Stated at cost or fair value	**394**	457
Investments	**$ 2,708**	$ 3,060
Other assets		
Unamortized software production costs	**$ 483**	$ 499
Unamortized goodwill	**1,007**	1,359
Deferred charges	**746**	270
Other	**1,757**	1,437
Other assets	**$ 3,993**	$ 3,565
Debt maturing within one year		
Commercial paper	**$10,777**	$ 8,761
Long-term debt	**2,535**	2,019
Long-term lease obligations	**30**	52
Other	**324**	231
Debt maturing within one year	**$13,666**	$11,063

Supplementary Cash Flow Information

Dollars in millions	1994	1993	1992
Interest payments net of amounts capitalized	**$1,280**	$1,640	$1,510
Income tax payments	**2,047**	1,733	727

The following table displays the non-cash items excluded from the consolidated statements of cash flows:

Dollars in millions	1994	1993	1992
Machinery and equipment acquired under capital lease obligations	**$ 13**	$ 15	$ 60
Exchange of stock			
Net assets	**$ 2**	$ (43)	—
Investments	**—**	260	—
Licenses	**134**	96	—
	$ 136	$ 313	—
Acquisition activities			
Net receivables	**$ 24**	$ (19)	$ (131)
Inventories	**(10)**	(1)	(48)
Property, plant and equipment	**3**	(132)	(82)
Licensing costs	**(79)**	5	(75)
Accounts payable	**(8)**	7	37
Short-term and long-term debt	**47**	3	93
Other operating assets and liabilities – net	**167**	(91)	(102)
Net non-cash items consolidated	**144**	(228)	(308)
Net cash received from (used for) acquisitions	**$ 144**	$ (228)	$ (308)

6. Business Restructuring and Other Charges

Our $498 million in provisions for business restructuring in 1993 covered $227 million of costs at AT&T Global Information Solutions (including, in millions, $137 for special termination benefits, $43 for closing facilities, $18 for employee relocation, $19 for contractual obligations and $10 for other related expenses). We also provided $215 million for restructuring customer support functions for telecommunications services (including, in millions, $55 for employee relocation, $25 for outplacement costs, $30 for legal matters, and $105 for closing facilities, lease

terminations and asset abandonments associated with centralizing support services). The remaining provisions consist of $23 million related to closing plants for manufacturing telecommunications network systems, and $33 million for employee relocation, outplacement services and legal liabilities related to restructuring operations that service the U.S. federal government. These amounts were recorded as $13 million in costs of products and systems, $90 million as costs of other services, $373 million as selling, general and administrative expenses and $22 million as research and development expenses.

We believe that the balance of reserves for business restructuring activities, $894 million at December 31, 1994, is adequate for the completion of those activities.

7. Other Income – Net

In June 1993 we sold our remaining 77% interest in UNIX System Laboratories, Inc. to Novell, Inc. (Novell) in exchange for approximately 3% of Novell's common stock. Our gain on the sale was $217 million.

We sold our remaining interest in Compagnie Industriali Riunite S.p.A. in 1993 for a slight gain. We reduced the carrying value of that investment by $68 million in 1992 because of a sustained decline in its market value.

8. Sale of Stock by Subsidiary

In August 1993 AT&T Capital Corporation (AT&T Capital) sold 5,750,000 shares of common stock in an initial public offering and approximately 850,000 shares of common stock in a management offering. That was about 14% of the shares outstanding, so our ownership is now about 86%. The shares were sold at $21.50 per share, yielding net proceeds of $115 million excluding $18 million of recourse loans attributable to the management offering. Because of these loans, we recorded a $9 million loss on the sale. When the loans are collected by the year 2000, we expect to report a net $6 million gain from this sale of stock.

9. Income Taxes

This table shows the principal reasons for the difference between the effective tax rate and the United States federal statutory income tax rate:

Dollars in millions	**1994**	1993	1992
U.S. Federal statutory income tax rate	**35%**	35%	34%
Federal income tax at statutory rate	**$2,631**	$2,101	$1,917
Amortization of investment tax credits	**(33)**	(92)	(221)
State and local income taxes, net of federal income tax effect	**296**	287	243
Amortization of intangibles	**20**	24	110
Foreign rate differential	**36**	45	75
Taxes on repatriated and accumulated foreign income, net of tax credits	**(71)**	(20)	67
Research credits	**(66)**	(47)	(18)
Capital loss carryforward	**—**	—	(13)
Effect of tax rate change on deferred tax assets	**—**	(23)	—
Other differences – net	**(5)**	26	36
Provision for income taxes	**$2,808**	$2,301	$2,196
Effective income tax rate	**37.3%**	38.3%	39.0%

The U.S. and foreign components of income before income taxes and the provision for income taxes are presented in this table:

Dollars in millions	**1994**	1993	1992
Income before income taxes			
United States	**$6,841**	$5,705	$5,308
Foreign	**677**	298	330
	$7,518	$6,003	$5,638
Provision for income taxes			
Current			
Federal	**$1,618**	$ 925	$ 533
State and local	**300**	206	142
Foreign	**225**	169	215
	$2,143	$1,300	$ 890
Deferred			
Federal	**$ 488**	$ 910	$1,384
State and local	**155**	212	225
Foreign	**60**	(41)	(85)
	$ 703	$1,081	$1,524
Deferred investment tax credits–net*	**(38)**	(80)	(218)
Provision for income taxes	**$2,808**	$2,301	$2,196

*Net of amortization of $33 in 1994, $92 in 1993 and $221 in 1992.

Deferred tax liabilities are taxes we expect to pay in future periods. Similarly, deferred tax assets are taxes we expect to get refunded in future periods. Deferred taxes arise because of differences in the book and tax bases of certain assets and liabilities.

Deferred tax liabilities (assets) consist of the following:

Dollars in millions	1994	1993
Long-term deferred income tax liabilities:		
Property, plant and equipment	**$5,964**	$5,620
Other	**1,713**	964
Total long-term deferred tax liabilities	**$7,677**	$6,584
Long-term deferred income tax assets:		
Business restructuring	**$ 479**	$ 476
Credit carryforwards	**166**	425
Employee pensions and other benefits–net	**2,618**	3,348
Reserves and allowances	**141**	142
Unamortized investment tax credits	**92**	119
Valuation allowance	**(178)**	(212)
Other	**446**	55
Total long-term deferred income tax assets	**$3,764**	$4,353
Net long-term deferred income tax liabilities	**$3,913**	$2,231
Current deferred income tax liabilities:		
Other	**$ 110**	$ 93
Total current deferred income tax liabilities	**$ 110**	$ 93
Current deferred income tax assets:		
Business restructuring	**$ 99**	$ 191
Credit carryforwards	**99**	—
Employee pensions and other benefits	**1,166**	850
Reserves and allowances	**1,126**	907
Other	**650**	224
Total current deferred income tax assets	**$3,140**	$2,172
Net current deferred income tax assets	**$3,030**	$2,079

This table shows the principal sources of deferred taxes in 1992:

Dollars in millions	1992
Property, plant and equipment	$ 992
Business restructuring charges	218
Employee pensions and other benefits	234
Reserves and allowances	108
Other timing differences – net	(28)
Deferred income taxes	$1,524

10. Leases

As Lessor

We provide financing on sales of our products and those of other companies and lease our products to customers under sales-type leases. This table displays our net investment in direct financing and sales-type leases:

Dollars in millions at December 31	1994	1993
Minimum lease payments receivable	**$ 5,414**	$4,226
Estimated unguaranteed residual values	**593**	543
Unearned income	**(1,006)**	(797)
Allowance for credit losses	**(127)**	(110)
Net investment	**$ 4,874**	$3,862

This table shows the scheduled maturities for our $5,414 million minimum lease payments receivable on these leases at December 31, 1994:

1995	1996	1997	1998	1999	Later Years
$1,689	$1,402	$1,143	$659	$309	$212

We lease airplanes, energy-producing facilities and transportation equipment under leveraged leases having original terms ranging from 10 to 30 years, expiring in various years from 1995 through 2025.

This table shows our net investment in leveraged leases:

Dollars in millions at December 31	1994	1993
Rentals receivable (net of principal and interest on nonrecourse notes)	**$ 967**	$1,010
Estimated residual value of leased property	**781**	782
Unearned and deferred income	**(472)**	(537)
Allowance for credit losses	**(30)**	(22)
Investment in leveraged leases	**1,246**	1,233
Deferred taxes	**(1,066)**	(994)
Net investment	**$ 180**	$ 239

We lease land, buildings and equipment to others through operating leases, the majority of which are cancelable. This table shows our net investment in operating leases:

Dollars in millions at December 31	1994	1993
Assets leased to others	**$2,129**	$2,694
Less: Accumulated depreciation	**817**	1,230
Net investment	**$1,312**	$1,464

This table shows the $977 million of future minimum rentals receivable under noncancelable operating leases at December 31, 1994:

1995	1996	1997	1998	1999	Later Years
$354	$201	$104	$46	$32	$240

As Lessee

We lease land, buildings and equipment through contracts that expire in various years through 2025. Our rental expense under operating leases, in millions, was $1,098 in 1994, $1,095 in 1993 and $1,168 in 1992. The table below shows our future minimum lease payments due under noncancelable leases at December 31, 1994. Such payments total $2,968 million for operating leases. The net present value of such payments on capital leases was $105 million after deducting estimated executory costs of $1 million and imputed interest of $15 million.

	1995	1996	1997	1998	1999	Later Years
Operating leases	$579	$445	$370	$301	$250	$1,023
Capital leases	52	30	21	10	5	3
Minimum lease payments	$631	$475	$391	$311	$255	$1,026

11. Shareowners' Equity

Dollars in millions	Common Shares	Additional Paid-in Capital	Foreign Currency Translation Adjustments	Retained Earnings (Deficit)
At December 31, 1991	$1,491	$12,670	$158	$4,116
1992				
Net income	—	—	—	3,442
Dividends declared	—	—	—	(1,759)
Shares issued:				
Under employee plans	14	307	—	—
Under shareowner plans	10	402	—	—
Other	—	2	—	—
For merger with Teradata	11	103	—	—
Teradata balance recorded	—	—	—	(178)
Shares repurchased	—	(2)	—	—
Translation adjustments	—	—	(93)	—
Other changes	—	3	—	23
At December 31, 1992	1,526	13,485	65	5,644
1993				
Net income	—	—	—	(5,906)
Dividends declared	—	—	—	(1,780)
Shares issued:				
Under employee plans	6	183	—	—
Under shareowner plans	8	450	—	—
Other	7	208	—	—
Shares repurchased	—	(4)	—	—
Translation adjustments	—	—	(97)	—
Other changes	—	2	—	(68)
At December 31, 1993	1,547	14,324	(32)	(2,110)
1994				
Net income	—	—	—	**4,710**
Dividends declared	—	—	—	**(1,940)**
Shares issued:				
Under employee plans	**11**	**538**	—	—
Under shareowner plans	**8**	**424**	—	—
To acquire licenses	**3**	**133**	—	—
Shares repurchased	—	**(2)**	—	—
Preferred stock redemption	—	**408**	—	—
Translation adjustments	—	—	**177**	—
Other changes	—	—	—	**27**
At December 31, 1994	**$1,569**	**$15,825**	**$145**	**$ 687**

In 1992 we recorded the retained earnings of Teradata Corporation (Teradata) as of January 1, after making adjustments associated with the merger. In September 1991 NCR Corporation (NCR) issued 6.3 million shares of NCR common stock in connection with the merger with AT&T. The shares were converted into approximately 17.9 million shares of our common stock upon consummation of the merger.

In March 1990 we issued 13.4 million new shares of common stock in connection with the establishment of an ESOP feature for the nonmanagement savings plan. The shares are being allocated to plan participants over ten years commencing in July 1990 as contributions are made to the plan.

We have 100 million authorized shares of preferred stock at $1 par value. No preferred stock is currently issued or outstanding.

12. Long-term Debt Obligations

This table shows the outstanding long-term debt obligations in millions at December 31:

Interest Rates	Maturities	1994	1993
Debentures			
$4\frac{3}{8}$% to $4\frac{3}{4}$%	1996–1999	**$ 750**	$ 750
$5\frac{1}{8}$% to 6%	2000–2001	**500**	500
8% to 9%	2008–2031	**1,700**	1,676
Notes			
$4\frac{1}{4}$% to $7\frac{3}{4}$%	1995–2009	**6,291**	3,605
$7\frac{4}{5}$% to $8\frac{19}{20}$%	1995–2004	**348**	445
9% to 13%	1995–2020	**373**	616
Variable rate	1995–2054	**3,187**	6,072
		13,149	13,664
Long-term lease obligations		**105**	163
Other		**739**	89
Less: Unamortized discount–net		**69**	43
		13,924	13,873
Less: Amounts maturing within one year		**2,566**	2,071
Total long-term obligations		**$11,358**	$11,802

This table shows the maturities, at December 31, 1994, of the $13,149 million in debentures and notes:

1995	1996	1997	1998	1999	Later Years
$2,535	$2,115	$1,197	$1,288	$1,396	$4,618

A consortium of lenders provides revolving credit facilities of $7 billion to AT&T and $2 billion to AT&T Capital. These facilities are intended for general corporate purposes, which include support for AT&T's and AT&T Capital's commercial paper. They were unused at December 31, 1994.

13. Employee Benefit Plans

Pension Plans

We sponsor noncontributory defined benefit plans covering the majority of our employees. Benefits for management employees are principally based on career-average pay. Benefits for occupational employees are not directly pay-related.

Pension contributions are principally determined using the aggregate cost method and are primarily made to trust funds held for the sole benefit of plan participants. We compute pension cost using the projected unit credit method and assumed a long-term rate of return on plan assets of 9.0% in 1994, 1993 and 1992.

Pension cost includes the following components:

Dollars in millions	1994	1993	1992
Service cost – benefits earned during the period	**$ 669**	$ 536	$ 452
Interest cost on projected benefit obligation	**2,400**	2,294	2,225
Amortization of unrecognized prior service costs	**230**	251	346
Credit for expected return on plan assets*	**(3,260)**	(3,110)	(2,973)
Amortization of transition asset	**(501)**	(500)	(502)
Charges for special pension options	**—**	74	11
Net pension cost (credit)	**$ (462)**	$ (455)	$ (441)

*The actual return on plan assets was $601 in 1994, $5,068 in 1993 and $2,153 in 1992.

This table shows the funded status of the defined benefit plans:

Dollars in millions at December 31	1994	1993
Actuarial present value of accumulated benefit obligation, including vested benefits of $26,315 and $28,027, respectively	**$28,778**	$30,804
Plan assets at fair value	**$40,150**	$41,291
Less: Actuarial present value of projected benefit obligation	**30,090**	32,495
Excess of assets over projected benefit obligation	**10,060**	8,796
Unrecognized prior service costs	**2,319**	2,052
Unrecognized transition asset	**(3,460)**	(3,960)
Unrecognized net gain	**(4,982)**	(3,504)
Net minimum liability of nonqualified plans	**(93)**	(122)
Prepaid pension costs	**$ 3,844**	$ 3,262

We used these rates and assumptions to calculate the projected benefit obligation:

At December 31	1994	1993
Weighted-average discount rate	**8.7%**	7.5%
Rate of increase in future compensation levels	**5.0%**	5.0%

The prepaid pension costs shown above are net of pension liabilities for plans where accumulated plan benefits exceed assets. Such liabilities are included in other liabilities in the consolidated balance sheets.

We are amortizing over approximately 15.9 years the unrecognized transition asset related to our 1986 adoption of SFAS No. 87, "Employers' Accounting for Pensions." We amortize prior service costs primarily on a straight-line basis over the average remaining service period of active employees. Our plan assets consist primarily of listed stocks (including $216 million and $378 million of AT&T common stock at December 31, 1994 and 1993, respectively), corporate and governmental debt, real estate investments, and cash and cash equivalents.

Savings Plans

We sponsor savings plans for the majority of our employees. The plans allow employees to contribute a portion of their pretax and/or after-tax income in accordance with specified guidelines. We match a percentage of the employee contributions up to certain limits. Our contributions in millions amounted to $357 in 1994, $351 in 1993 and $334 in 1992.

14. Postretirement Benefits

Our benefit plans for retirees include health care benefits, life insurance coverage and telephone concessions. This table shows the components of the net postretirement benefit cost:

Dollars in millions	1994	1993
Service cost – benefits earned during the period	**$108**	$ 95
Interest cost on accumulated postretirement benefit obligation	**852**	868
Expected return on plan assets*	**(242)**	(180)
Amortization of unrecognized prior service costs	**14**	29
Charge for special options	**—**	29
Net postretirement benefit cost	**$732**	$841

*The actual return on plan assets was $(30) in 1994, and $243 in 1993.

We did not restate our 1992 financial statements to reflect the change in accounting for retiree benefits. This table shows our actual postretirement benefit costs on a pay-as-you-go basis in 1992:

Dollars in millions	1992
Cost of health care benefits for retirees	$532
Cost of life insurance benefits for retirees	3
Cost of telephone concessions and other benefits	39
Payments to regional Bell companies for predivestiture retirees	145
Postretirement benefit cost	$719

We had approximately 144,900 retirees in 1994, 142,200 in 1993 and 141,200 in 1992.

Our plan assets consist primarily of listed stocks, corporate and governmental debt, cash and cash equivalents and life insurance contracts. This table shows the funded status of our postretirement benefit plans reconciled with the amounts recognized in the consolidated balance sheet:

Dollars in millions at December 31	1994	1993
Accumulated postretirement benefit obligation:		
Retirees	**$ 7,861**	$ 8,912
Fully eligible active plan participants	**822**	885
Other active plan participants	**1,745**	2,084
Accumulated postretirement benefit obligation	**10,428**	11,881
Plan assets at fair value	**3,291**	2,918
Unfunded postretirement obligation	**7,137**	8,963
Less:		
Unrecognized prior service cost	**(46)**	210
Unrecognized net (gain) loss	**(633)**	558
Accrued postretirement benefit obligation	**$ 7,816**	$ 8,195

We made these assumptions in valuing our postretirement benefit obligation at December 31:

	1994	1993
Weighted-average discount rate	**8.8%**	7.5%
Expected long-term rate of return on plan assets	**9.0%**	9.0%
Assumed rate of increase in the per capita cost of covered health care benefits	**8.6%**	9.4%

We assumed that the growth in the per capita cost of covered health care benefits (the health care cost trend rate) would gradually decline after 1994 to 5.7% by the year 2021 and then remain level. This assumption greatly affects the amounts reported. To illustrate, increasing the assumed trend rate by 1% in each year would raise our accumulated postretirement benefit obligation at December 31, 1994 by $577 million and our 1994 postretirement benefit costs by $58 million.

15. Stock Options

In our Long-Term Incentive Program, we grant stock options, stock appreciation rights (SARs), either in tandem with stock options or free-standing, and other awards. On January 1 of each year, 0.6% of the outstanding shares of our common stock become available for grant. The exercise price of any stock option is equal to or greater than the stock price when the option is granted. When granted in tandem, exercise of an option or SAR cancels the other to the extent of such exercise. Before our mergers with McCaw, NCR and Teradata, stock options were granted under the separate stock option plans of those companies. No new options can be granted under those plans. Option transactions are shown below:

Number of Shares	1994	1993	1992
Balance at January 1	**38,011,478**	36,777,098	37,267,956
Options assumed in merger with Teradata	—	—	1,848,642
Options granted	**5,803,142**	7,261,355	7,580,568
Options and SARs exercised	**(2,498,132)**	(5,766,132)	(9,504,536)
Average price	**$25.04**	$23.93	$13.66
Options forfeited	**(1,031,687)**	(260,843)	(415,532)
At December 31:			
Options outstanding	**40,284,801**	38,011,478	36,777,098
Average price	**$36.61**	$33.52	$28.53
Options exercisable	**28,010,381**	24,063,837	23,759,421
Shares available for grant	**22,014,728**	25,264,307	22,614,535

During 1994, 41,300 SARs were exercised and no SARs were granted. At December 31, 1994, 881,385 SARs remained unexercised and all of these were exercisable.

16. Segment Information

Industry Segments

Our operations in the global information movement and management industry involve providing wireline and wireless telecommunications services, business information processing systems, and other systems, products and services that combine communications and computers. Our operations in the financial services and leasing industry involve direct financing and finance leasing programs for our products and the products of other companies, leasing products to customers under operating leases and being in the general-purpose credit card business. Miscellaneous other activities, including the distribution of computer equipment through retail outlets, in the aggregate, represent less than 10% of revenues, operating income and identifiable assets and are included in the information movement and management segment. Revenues between industry segments are not material.

Dollars in millions	1994	1993	1992
Revenues			
Information movement and management	**$71,977**	$66,847	$64,753
Financial services and leasing	**3,117**	2,504	1,894
	$75,094	$69,351	$66,647
Operating income			
Information movement and management	**$ 8,188**	$ 6,839	$ 7,200
Financial services and leasing	**394**	339	193
Corporate and nonoperating	**(1,064)**	(1,175)	(1,755)
Income before income taxes	**$ 7,518**	$ 6,003	$ 5,638
Assets			
Information movement and management	**$56,551**	$51,971	$50,661
Financial services and leasing	**21,462**	17,033	14,003
Corporate assets	**1,714**	1,104	1,849
Eliminations	**(465)**	(715)	(409)
	$79,262	$69,393	$66,104
Depreciation and amortization			
Information movement and management	**$ 4,193**	$ 4,271	$ 4,046
Financial services and leasing	**440**	431	352
Capital expenditures			
Information movement and management	**$ 4,237**	$ 3,831	$ 3,710
Financial services and leasing	**609**	457	633
Total liabilities			
Financial services and leasing	**$19,463**	$15,329	$12,250

Geographic Segments

Transfers between geographic areas are on terms and conditions comparable with sales to external customers. The methods followed in developing the geographic area data require the use of estimation techniques and do not take into account the extent to which product development, manufacturing and marketing depend upon each other. Thus the information may not be indicative of results if the geographic areas were independent organizations.

Dollars in millions	1994	1993	1992
Revenues – external customers			
United States	**$67,769**	$63,775	$60,977
Other geographic areas	**7,325**	5,576	5,670
	$75,094	$69,351	$66,647
Transfers between geographic areas (eliminated in consolidation)			
United States	**$ 1,679**	$ 1,374	$ 1,077
Other geographic areas	**1,291**	1,125	911
	$ 2,970	$ 2,499	$ 1,988
Operating income (loss)			
United States	**$ 8,732**	$ 7,425	$ 7,441
Other geographic areas	**(150)**	(247)	(48)
Corporate and nonoperating	**(1,064)**	(1,175)	(1,755)
Income before income taxes	**$ 7,518**	$ 6,003	$ 5,638
Assets			
United States	**$69,718**	$63,194	$60,409
Other geographic areas	**9,361**	6,901	5,373
Corporate assets	**1,714**	1,104	1,849
Eliminations	**(1,531)**	(1,806)	(1,527)
	$79,262	$69,393	$66,104

Data on other geographic areas pertain to operations that are located outside of the U.S. Our revenues from all international activities, including those in the table, international telecommunications services and exports, provided 25.2% of consolidated revenues in 1994.

Business restructuring and other charges were taken primarily in the information movement and management segment and the U.S. geographic area. Corporate assets are principally cash and temporary cash investments.

17. Financial Instruments

In the normal course of business we use various financial instruments, including derivative financial instruments, for purposes other than trading. These instruments include commitments to extend credit, letters of credit, guarantees of debt, interest rate swap and cap agreements, and foreign currency exchange contracts. By their nature all such instruments involve risk, including the credit risk of nonperformance by counterparties, and our maximum potential loss may exceed the amount recognized in our balance sheet. As is customary for these types of instruments, we usually do not require collateral or other security from other parties to these instruments. However, because we control our exposure to credit risk through credit approvals, credit limits and monitoring procedures, we believe that our reserves for losses are adequate.

Commitments to Extend Credit

We participate in the general-purpose credit card business through AT&T Universal Card Services Corp., a wholly owned subsidiary. We purchase essentially all cardholder receivables under an agreement with the Universal Bank, a subsidiary of Synovus Financial Corporation, which issues the cards. At December 31, the unused portion of available credit was approximately $75,445 million in 1994 and $64,864 million in 1993. This represents the receivables we would need to purchase if all Universal Card accounts were used up to their full credit limits. The potential risk of loss associated with, and the estimated fair values of, the unused credit lines are not considered to be significant.

Letters of Credit

Letters of credit are purchased guarantees that ensure our performance or payment to third parties in accordance with specified terms and conditions.

Guarantees of Debt

From time to time, we guarantee the financing for product purchases by customers outside the U.S., and the debt of certain unconsolidated joint ventures.

Interest Rate Swap and Cap Agreements

We enter into interest rate contracts to manage our exposure to changes in interest rates and lower our overall costs of financing. We enter into swap agreements to manage the fixed/floating mix of our debt portfolio to reduce aggregate risk to interest rate movements. These agreements involve the exchange of floating rate for fixed rate payments without the exchange of the underlying principal amount. Fixed interest rate payments are at rates ranging from 3.8% to 8.2%. Floating rate payments are based on rates tied to prime, LIBOR or U.S. Treasury bills. Interest rate differentials paid or received under these swap contracts are recognized over the life of the contracts as adjustments to the effective yield of the underlying debt.

We pay premiums for cap agreements to protect us from rising interest rates on our floating rate debt. There is no market risk of loss beyond the premiums paid, which are amortized over the life of the agreement. The weighted average remaining term of the agreements is 5 years for swap contracts and 2 years for caps.

Foreign Exchange

We enter into foreign currency exchange contracts, including forward, option and swap contracts, to manage our exposure to changes in currency exchange rates, principally Canadian dollars, Deutsche marks, pounds sterling and Japanese yen. The use of derivative financial instruments allows us to reduce our exposure to the risk that the eventual dollar net cash inflows resulting from the sale of products to foreign customers and purchases from foreign suppliers will be adversely affected by changes in exchange rates. Our foreign exchange contracts almost entirely hedge firmly committed purchases and sales. These transactions are generally expected to occur in less than one year. Deferred gains and losses are recognized when the future sales or purchases are recognized or

immediately if the commitment is canceled. At December 31, 1994, deferred unrealized gains, based on dealer quoted prices, were $51 million and deferred unrealized losses were $55 million.

Fair Values of Financial Instruments including Derivative Financial Instruments

The tables below show the valuation methods and the carrying or notional amounts and estimated fair values of material financial instruments held or issued for purposes other than trading:

Financial instrument	*Valuation method*
Universal Card finance receivables	Carrying amounts. These accrue interest at a prime-based rate.
All other finance receivables	Future cash flows discounted at market rates.
Debt excluding capital leases	Market quotes or based on rates available to us for debt with similar terms and maturities.
Letters of credit	Fees paid to obtain the obligations.
Guarantees of debt	Costs to terminate agreements.
Interest rate swap agreements	Net gains or losses to terminate agreements.
Interest rate cap agreements	Costs to obtain agreements.
Foreign exchange contracts	Market quotes.

Dollars in millions	**1994**		1993	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
On balance sheet				
Assets:				
Finance receivables other than leases	**$13,553**	**$13,528**	$10,320	$10,337
Liabilities:				
Debt excluding capital leases	**24,920**	**24,449**	22,702	23,032
	Contract/ Notional Amount	**Fair Value**	Contract/ Notional Amount	Fair Value
Off balance sheet				
Interest rate swap agreements	**$4,423**	**$115**	$3,835	$(37)
Interest rate cap agreements	**1,333**	**2**	1,640	4
Foreign exchange:				
Forward contracts	**1,573**	**(17)**	783	(3)
Swap contracts	**340**	**10**	361	5
Purchased option contracts	**—**	**—**	41	1
Letters of credit	**834**	**2**	680	—
Guarantees of debt	**423**	**—**	455	—

18. Contingencies

In the normal course of business we are subject to proceedings, lawsuits and other claims, including proceedings under government laws and regulations related to environmental and other matters. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Consequently, we are unable to ascertain the ultimate aggregate amount of monetary liability or financial impact with respect to these matters at December 31, 1994. While these matters could affect the operating results of any one quarter when resolved in future periods, we believe that after final disposition, any monetary liability or financial impact to us beyond that provided for at year-end would not be material to our annual consolidated financial statements.

19. AT&T Credit Holdings, Inc.

In connection with a March 31, 1993, legal restructuring of AT&T Capital Holdings, Inc. (formerly AT&T Capital Corporation), we issued a direct, full and unconditional guarantee of all the outstanding public debt of AT&T Credit Holdings, Inc. (formerly AT&T Credit Corporation).

AT&T Credit Holdings, Inc. holds the majority of AT&T's investment in AT&T Capital and the lease finance assets of the former AT&T Credit Corporation. The table below shows summarized consolidated financial information for AT&T Credit Holdings, Inc., which consolidates the accounts of AT&T Capital. The summarized financial information includes transactions with AT&T that are eliminated in consolidation.

Dollars in millions	**1994**	1993	1992
Total revenue	**$1,437**	$1,432	$1,351
Interest expense	**302**	284	293
Selling, general and administrative expense	**387**	329	309
Income before cumulative effect of change in accounting	**92**	70	100
Cumulative effect on prior years of change in accounting for income taxes (SFAS No. 109)	**—**	22	—
Net income	**92**	48	100
Finance receivables	**$7,726**	$6,220	
Net investment in operating lease assets	**903**	978	
Total assets	**9,468**	7,886	
Total debt	**5,682**	4,639	
Total liabilities	**8,299**	6,867	
Minority interest	**270**	251	
Total shareowners' equity	**899**	768	

In some cases, AT&T Capital securitizes finance receivables, subject to limited recourse provisions. In the unlikely event that all such receivables had become uncollectible and subject to recourse, our exposure was $353 million at December 31, 1994 and $347 million at December 31, 1993. We record liabilities for the amounts we expect to actually reimburse.

20. Preferred Stock Redemption

On June 24, 1994, LCH Communications (LCH), a subsidiary of LIN Broadcasting Corporation (LIN), redeemed all $1.3 billion of its outstanding redeemable preferred stock held by Comcast Cellular Communications, Inc. in exchange for all of the capital stock of one of LCH's subsidiaries.

As a result of the redemption, we eliminated the net assets and recorded a gain on the sale of assets of $12 million and a tax benefit of $74 million. The $784 million difference between the book value of the preferred stock and the fair value of the assets exchanged was recorded as $408 million of additional paid-in capital and $376 million of minority interests.

21. Private Market Value Guarantee

Under the Private Market Value Guarantee (PMVG) between McCaw and its 52%-owned subsidiary, LIN, a process began on January 1, 1995, to determine the private market price per share of LIN. The private market value is defined as the price per share, including control premium, that an unrelated third party would pay if it were to acquire all the outstanding shares of LIN, including the shares held by McCaw, in an arm's-length transaction and assuming that LIN was being sold in a manner to attract all possible participants and to maximize shareholder value. Using that definition, the private market value is being determined by Morgan Stanley & Co. Incorporated, designated as McCaw's appraiser, and by Lehman Brothers Inc. and Bear, Stearns & Co., designated jointly as the LIN independent directors' appraiser, and if necessary by a third party appraiser. After the price is determined, McCaw will have 45 days to decide whether to proceed with the acquisition of all the public shares of LIN at that price, subject to the approval of the LIN public shareholders, or to put LIN in its entirety up for sale under the direction of the LIN independent directors. Such a sale would also be subject to approval by the LIN public shareholders.

22. Quarterly Information (unaudited)

Dollars in millions (except per share amounts)	First	Second	Third	Fourth
1994				
Total revenues	**$17,097**	**$18,238**	**$18,649**	**$21,110**
Gross margin	**6,967**	**7,406**	**7,765**	**8,639**
Net income	**1,074**	**1,248**	**1,050**	**1,338**
Per common share:				
Net income	**.69**	**.80**	**.67**	**.85**
Dividends declared	**.33**	**.33**	**.33**	**.33**
Stock price*:				
High	**57 1/8**	**57 1/8**	**55 7/8**	**55 1/4**
Low	**50 5/8**	**49 1/2**	**52 1/2**	**47 1/4**
Quarter-end close	**51 1/4**	**53 3/8**	**54**	**50 1/4**
1993				
Total revenues	$16,199	$16,857	$17,225	$19,070
Gross margin	6,491	6,785	6,941	7,499
Income before cumulative effects of accounting changes	922	982	1,022	776
Net income (loss)	(8,686)	982	1,022	776
Per common share:				
Income before cumulative effects of accounting changes	.60	.64	.66	.50
Net income (loss)	(5.65)	.64	.66	.50
Dividends declared	.33	.33	.33	.33
Stock price*:				
High	59 1/8	63 7/8	65	61 3/8
Low	50 1/8	53 3/4	57 3/8	52
Quarter-end close	56 3/4	63	58 7/8	52 1/2

*Stock prices obtained from the Composite Tape.

The number of weighted average shares outstanding increases as we issue new common shares for employee plans, shareowner plans and other purposes. For this reason, the sum of quarterly earnings per common share may not be the same as earnings per common share for the year, and the per share effects of unusual items in a quarter may differ from the per share effects of those same items for the year.

In the third quarter of 1994, we recorded $227 million of costs ($169 million net of taxes) related to the McCaw merger primarily consisting of legal and investment banking fees and bonus pool funding.

In the second quarter of 1993, we recorded $278 million in provisions for business restructuring activities. The effect of these provisions was offset by the $217 million gain from selling UNIX System Laboratories, Inc. and other miscellaneous credits. In the fourth quarter of 1993, we recorded a $190 million provision for business restructuring at AT&T Global Information Solutions Company, which reduced net income by $119 million ($0.08 per share).

Board of Directors

Robert E. Allen, 59
Chairman of the Board and Chief Executive Officer of AT&T since 1988. Director since 1984. 6,8

M. Kathryn Eickhoff, 55
President of Eickhoff Economics Inc., a business consulting firm. Elected to Board in 1987. 1,5

Walter Y. Elisha, 62
Chairman and Chief Executive Officer of Springs Industries, Inc., a textile manufacturing firm. Director since 1987. 2,4,7

Philip M. Hawley, 69
Retired Chairman and Chief Executive Officer of Broadway Stores, Inc. (formerly Carter Hawley Hale Stores, Inc.), department stores. Director since 1982. 2,3,4

Carla A. Hills, 60
Chairman and Chief Executive Officer of Hills & Company consulting firm and former U.S. Trade Representative. Elected to Board in 1993. 1,2,5

Belton K. Johnson, 65
Former owner of Chaparrosa Ranch. Chairman of Belton K. Johnson Interests. Director since [illegible] 3,5,6,8

Drew Lewis, 63
Chairman and Chief Executive Officer of Union Pacific Corporation, a rail transportation, natural resources and trucking company. Elected to Board in [illegible]

Donald F. McHenry, 58
President of IRC Group, international relations consultants; educator and former U.S. Ambassador to the United Nations. Director since 1986. 3,7

Victor A. Pelson, 57
Chairman of AT&T Global Operations Team and Executive Vice President of AT&T. Elected to Board in 1993. 5

Donald S. Perkins, 67
Chairman of Kmart Corp., mass merchandise retailer. Director since 1979. 2,3,6,7,8

Henry B. Schacht, 60
Chairman and former Chief Executive Officer of Cummins Engine Company, Inc., manufacturer of diesel engines. Elected to Board in 1981. 1,5

Michael I. Sovern, 63
President Emeritus and Chancellor Kent Professor of Law at Columbia University. Director since 1984. 1,4

Franklin A. Thomas, 60
President of The Ford Foundation. Elected to Board in 1988. 1,2,5

Joseph D. Williams, 68
Retired Chairman and Chief Executive Officer of Warner-Lambert Company, a pharmaceutical, health care and consumer products company. Director since 1984. 4,6,7

Thomas H. Wyman, 65
Chairman of S. G. Warburg & Co. Inc., investment bankers. Director since 1981. 2,4,7

1. Audit Committee
2. Committee on Directors
3. Committee on Employee Benefits
4. Compensation Committee
5. Corporate Public Policy Committee
6. Executive Committee
7. Finance Committee
8. Proxy Committee

Management Executive Committee

Robert E. Allen, 59
Chairman of the Board and Chief Executive Officer since 1988. During 37-year AT&T career, has been chairman of Chesapeake and Potomac Telephone Companies, AT&T chief financial officer, chairman and CEO of AT&T Information Systems, and president and chief operating officer of AT&T.

Richard S. Bodman, 56
Senior Vice President of Corporate Strategy and Development since 1990. Previously president of Washington National Investment Corporation and CEO of Comsat General Corporation. Also held positions at E.I. du Pont de Nemours & Company, in the federal government and at Touche Ross & Company.

Harold W. Burlingame, 54
Senior Vice President of Human Resources since 1987. During 33-year AT&T career, has been vice president of public relations for AT&T Information Systems and senior vice president of public relations for the corporation.

Marilyn Laurie, 55
Senior Vice President of Public Relations and Employee Information since 1987. Chairman of the AT&T Foundation. Headed public relations at AT&T Bell Laboratories and AT&T Communications. A nationally recognized environmentalist, she joined AT&T in 1971.

Alex J. Mandl*, 51
Executive Vice President and Chief Executive Officer of Communications Services since 1993. Joined AT&T in 1991 as chief financial officer. Formerly chairman and CEO of Sea-Land Service, Inc. Held senior positions at CSX Corporation and Boise Cascade Corporation.

William B. Marx, Jr.*, 55
Executive Vice President and Chief Executive Officer, Multimedia Products, since 1994. Also responsible for worldwide purchasing operations, global manufacturing planning and AT&T Microelectronics. Held executive positions in several AT&T units since joining the company in 1961, most recently as Chief Executive Officer of AT&T Network Systems from 1989 to 1994.

John S. Mayo†, 64
President of AT&T Bell Laboratories since 1991. Joined AT&T in 1955. Headed product development at AT&T Network Systems and was senior vice president for network systems and network services at Bell Labs. Recipient of the National Medal of Technology for role in providing the technological foundation for Information Age communications.

Richard A. McGinn*, 48
Executive Vice President and Chief Executive Officer of Network Systems since 1994. During 25-year AT&T career, has been a regional director for AT&T International, president of AT&T Computer Systems, and president and chief operating officer of Network Systems.

Richard W. Miller*, 54
Executive Vice President and Chief Financial Officer since 1993. Formerly chairman and CEO of Wang Laboratories, Inc., senior vice president and general manager for consumer electronics at General Electric Company and chief financial officer for RCA.

William T. O'Shea*, 47
Interim Executive Vice President and Chief Executive Officer of AT&T Global Information Systems following the departure of Jerre L. Stead. Has spent more than 20 years in development, marketing and sales of information systems since joining AT&T Bell Laboratories in 1972. Currently senior vice president for worldwide marketing of AT&T Global Information Solutions.

Victor A. Pelson*, 57
Executive Vice President and Chairman of the Global Operations Team since 1993. Responsible for the effectiveness of AT&T's operations worldwide. Joined AT&T in 1959 as an engineer. Named head of Communications Services Group in 1989. Has held executive positions in virtually every part of the company.

John D. Zeglis, 47
Senior Vice President– General Counsel and Government Affairs since 1986 and 1989, respectively. Joined AT&T in 1984. Formerly a partner at the law firm of Sidley & Austin.

*Also a member of the Global Operations Team.

†Daniel C. Stanzione, president of AT&T Network Systems' Global Public Networks unit, will succeed Dr. Mayo upon his retirement February 28, 1995.

The Management Executive Committee leads the development and implementation of AT&T's mission, values and strategic intent, while the Global Operations Team is responsible for the effectiveness of AT&T's operations worldwide.

Our thanks and best wishes to three Management Executive Committee members who left the company. Sam Willcoxon retired as Group Executive of AT&T and President of the Telephone Pioneers of America. Jerre Stead, Chief Executive Officer of AT&T Global Information Systems, left to become Chief Executive Officer of Legent Corp., and Robert Kavner, Chief Executive Officer of AT&T Multimedia Products and Services, joined Creative Artists Agency.

Maureen B. Tart, 39
Vice President and Controller

S. Lawrence Prendergast, 53
Vice President and Treasurer

Marilyn J. Wasser, 39
Vice President–Law and Secretary

General Information

GENERAL QUESTIONS
General questions or comments about AT&T may be addressed to the office of Vice President–Law and Secretary at:

AT&T Corporate Headquarters
32 Avenue of the Americas
Room 2420E
New York, NY 10013-2412

FORM 10-K
Form 10-K (AT&T's annual report to the Securities and Exchange Commission) is available without charge from AT&T's shareowner services agent, First Chicago Trust Co., at the address shown at right.

OTHER REPORTS
AT&T Capital Corporation's annual report and Form 10-K are available without charge by calling 1 800 235-4288 or 201 397-3000, or writing:

AT&T Capital Corporation
Corporate Communications
44 Whippany Road
Morristown, NJ 07962-1983

AT&T Foundation Report
Department BR
P.O. Box 45284
Jacksonville, FL 32232-5284

AT&T and the Environment
Department AR
131 Morristown Road
Room B1336
Basking Ridge, NJ 07920-1650

Helpful Information for Investors

SHAREOWNER SERVICES
First Chicago Trust Co., our shareowner services and transfer agent, will be happy to answer questions about your account and help you with transactions. You may call them toll-free at: 1 800 348-8288.

Persons using a telecommunications device for the deaf (TDD) or a teletypewriter (TTY) may call: 1 800 822-2794.

From outside the United States, call us collect at: 201 324-0293.

Our mailing address is:
AT&T
c/o First Chicago Trust Co. of NY
P.O. Box 2575
Jersey City, NJ 07303-2575

The First Chicago Trust address to which banks and brokers may deliver certificates for transfer is 14 Wall Street in New York City.

DIVIDEND REINVESTMENT
The Dividend Reinvestment and Stock Purchase Plan provides owners of common stock a convenient way to purchase additional shares. If interested, please call or write First Chicago Trust for a prospectus and enrollment form.

INVESTOR RELATIONS
Security analysts and other members of the professional financial community are invited to contact AT&T Corporate Investor Relations with questions. Call 1 800 972-0784.

STOCK DATA
AT&T is listed on the New York Stock Exchange (ticker symbol "T"). AT&T also is listed on the Boston, Midwest, Pacific and Philadelphia stock exchanges in the U.S., and on stock exchanges in Brussels, London, Paris, Geneva and Tokyo.

Shareowners of record (as of December 30, 1994): 2,302,327

1995 ANNUAL MEETING
The 110th Annual Shareowners Meeting will be held 9:30 a.m., Wednesday, April 19, 1995, at the Washington State Convention and Trade Center in Seattle.

INFORMATION VIA INTERNET
Internet World Wide Web users can access information on AT&T and its products and services through the following Universal Resource Locator address: http://www.att.com/.

Shareowners with an e-mail address can send account inquiries electronically to our transfer agent, First Chicago Trust Co. The Internet address is fctc@attmail.com. AT&T Mail Service subscribers should address inquiries to !fctc.

This annual report is printed on recycled paper containing 10% post-consumer and 50% pre-consumer fiber. Please recycle.

AT&T
32 Avenue of the Americas
New York, NY 10013-2412
212 387-5400

Our Common Bond

We commit to these values to guide our decisions and behavior

Respect for Individuals: We treat each other with respect and dignity, valuing individual and cultural differences. We communicate frequently and with candor, listening to each other regardless of level or position. Recognizing that exceptional quality begins with people, we give individuals the authority to use their capabilities to the fullest to satisfy their customers. Our environment supports personal growth and continuous learning for all AT&T people. **Dedication to Helping Customers:** We truly care for each customer. We build enduring relationships by understanding and anticipating our customers' needs and by serving them better each time than the time before. AT&T customers can count on us to consistently deliver superior products and services that help them achieve their personal or business goals. **Highest Standards of Integrity:** We are honest and ethical in all our business dealings, starting with how we treat each other. We keep our promises and admit our mistakes. Our personal conduct ensures that AT&T's name is always worthy of trust. **Innovation:** We believe innovation is the engine that will keep us vital and growing. Our culture embraces creativity, seeks different perspectives and risks pursuing new opportunities. We create and rapidly convert technology into products and services, constantly searching for new ways to make technology more useful to customers. **Teamwork:** We encourage and reward both individual and team achievements. We freely join with colleagues across organizational boundaries to advance the interests of customers and shareowners. Our team spirit extends to being responsible and caring partners in the communities where we live and work. **By living these values, AT&T aspires to set a standard of excellence worldwide that will reward our shareowners, our customers, and all AT&T people.** ■

AR53

1994 Notice of Annual Meeting and Proxy Statement

Wednesday, April 20, 1994
at 9:30 A.M.
Georgia World Congress Center
285 International Boulevard, N.W.
Atlanta, Georgia

AT&T

American Telephone and
Telegraph Company
32 Avenue of the Americas
New York, NY 10013-2412

Robert E. Allen
Chairman of the Board

March 1, 1994

Dear Shareholder:

It is a pleasure to invite you to your Company's 1994 Annual Meeting in Atlanta, Georgia, on Wednesday, April 20th. This will be AT&T's 109th Annual Meeting of Shareholders, and I hope that those who find it convenient will attend.

The Georgia World Congress Center is fully accessible to disabled persons, and we will provide hearing-amplification and sign interpretation for our hearing-impaired shareholders. AT&T products and services will be exhibited and employees representing various business units will be on hand to answer questions before and after the meeting.

Whether you own a few or many shares of stock and whether or not you plan to attend in person, it is important that your shares be voted on matters that come before the meeting. I urge you to specify your choices by marking the enclosed proxy card and returning it promptly. If you sign and return your proxy card without specifying your choices, it will be understood that you wish to have your shares voted in accordance with the directors' recommendations.

I look forward to seeing you at the meeting.

Sincerely,

R.E. Allen

NOTICE OF MEETING

The 109th Annual Meeting of Shareholders of American Telephone and Telegraph Company will be held at the Georgia World Congress Center, 285 International Boulevard, N.W., Atlanta, Georgia, on Wednesday, April 20, 1994, at 9:30 A.M. for the following purposes:

• To elect directors for the ensuing year (page 7);

• To ratify the appointment of auditors to examine the Company's accounts for the year 1994 (page 14);

• To approve an amendment to the Restated Certificate of Incorporation to change the name of the Company to "AT&T Corp." (page 14);

• To approve the 1995 AT&T Employee Stock Purchase Plan (page 16);

• To approve the 1994 Employee Stock Purchase Plan for AT&T Global Information Solutions Company (formerly NCR Corporation) (page 19);

• To approve the AT&T Short Term Incentive Plan (page 22); and

• To act upon such other matters, including shareholder proposals (beginning on page 27 of the accompanying proxy statement), as may properly come before the meeting.

Holders of common shares of record at the close of business on March 1, 1994, will be entitled to vote with respect to this solicitation.

Robert E. Scannell
Vice President – Law and Secretary

March 1, 1994

American Telephone and Telegraph Company
Executive Offices
32 Avenue of the Americas
New York, NY 10013-2412

PROXY STATEMENT

This proxy statement and the accompanying proxy/voting instruction card (proxy card) are being mailed beginning March 1, 1994, to holders of common shares in connection with the solicitation of proxies by the board of directors for the 1994 Annual Meeting of Shareholders in Atlanta, Georgia. Proxies are solicited to give all shareholders of record at the close of business on March 1, 1994, an opportunity to vote on matters that come before the meeting. This procedure is necessary because shareholders live in all states and abroad and most will not be able to attend. Shares can be voted only if the shareholder is present in person or is represented by proxy.

When your proxy card is returned properly signed, the shares represented will be voted in accordance with your directions. You can specify your choices by marking the appropriate boxes on the enclosed proxy card. If your proxy card is signed and returned without specifying choices, the shares will be voted as recommended by the directors. Abstentions are voted neither "for" nor "against," but are counted in the determination of a quorum.

If you wish to give your proxy to someone other than the Proxy Committee, all three names appearing on the enclosed proxy card must be crossed out and the name of another person or persons (not more than three) inserted. The signed card must be presented at the meeting by the person or persons representing you. You may revoke your proxy at any time before it is voted at the meeting by executing a later dated proxy, by voting by ballot at the meeting, or by filing an instrument of revocation with the inspectors of election in care of the Vice President – Law and Secretary of the Company at the above address.

Your vote is important. Accordingly, you are urged to sign and return the accompanying proxy card whether or not you plan to attend the meeting. If you do attend, you may vote by ballot at the meeting, thereby canceling any proxy previously given.

As a matter of policy, proxies, ballots, and voting tabulations that identify individual shareholders are kept private by the Company. Such documents are available for examination only by the inspectors of election and certain personnel associated with processing proxy cards and tabulating the vote. The vote of any shareholder is not disclosed except as may be necessary to meet legal requirements.

If a shareholder is a participant in the AT&T Shareowner Dividend Reinvestment and Stock Purchase Plan ("DRISPP"), the proxy card will represent the number of full shares in the DRISPP account on the record date, as well as shares registered in the participant's name. If a shareholder is a participant in the AT&T Employee Stock Ownership Plan ("ESOP"), AT&T Long Term Savings Plan for Management Employees, AT&T Long Term Savings and Security Plan, AT&T Retirement Savings and Profit Sharing Plan, AT&T of Puerto Rico, Inc. Long Term Savings Plan for Management Employees, AT&T of Puerto Rico, Inc. Long Term Savings and Security Plan, AT&T Capital Corporation Retirement and Savings Plan, AT&T Capital Corporation Excess Benefit Plan, AGCS Savings Plan, or AGCS Hourly Savings Plan, the proxy card will also serve as a voting instruction for the trustees of those plans where all accounts are registered in the same name. Shares in ESOP, AT&T Capital Corporation Retirement and Savings Plan, AT&T Capital Corporation Excess Benefit Plan, AGCS Savings Plan, and AGCS Hourly Savings Plan cannot be voted unless the card is signed and returned. If cards representing shares in the remaining plans are not returned, those shares will be voted by the trustees of the plans.

Shares allocated to the accounts of participants in plans of AT&T Global Information Solutions Company (formerly NCR Corporation), a wholly owned subsidiary of AT&T, such as the Corporation Payroll Employee Stock Ownership Plan, the Savings Plan, and the Employees' Profit Sharing Plan (referred to collectively as the "Future Income Plans"), Sandia Savings and Incentive Plan, Sandia Savings and Security Plan, or UNIX System Laboratories Retirement and

Savings Plan may be voted through separate participant direction cards that will be mailed to participants in these plans. If a participant also owns shares outside these plans, the participant must return both the proxy card and the participant direction card. The trustees of these plans will vote the number of shares allocated to a participant's account or accounts under such Plans in accordance with the directions on the participant direction card if the card is duly signed and received by April 13, 1994. For participants in the Future Income Plans, allocated shares for which the trustee receives no instructions and all unallocated shares will be voted by the trustee. Shares in the plans of Sandia and UNIX System Laboratories cannot be voted unless the participant direction card is signed and returned.

If you are a registered owner and plan to attend the meeting in person, please detach and retain the admission ticket which is attached to your proxy card and mark the appropriate box on the proxy card. Beneficial owners who plan to attend may obtain admission tickets in advance by sending written requests, along with proof of ownership, such as a bank or brokerage firm account statement, to the Manager, AT&T Shareowner Relations, 32 Avenue of the Americas, Room 2415, New York, NY 10013-2412.

Shareholders who do not present admission tickets at the meeting will be admitted upon verification of ownership at the admissions counter.

Highlights of the meeting will be included in the next quarterly report. Information on obtaining a full transcript of the meeting will also be found in that quarterly report.

Securities and Exchange Commission ("SEC") rules require that an annual report precede or be included with proxy materials. However, shareholders with multiple accounts may be receiving more than one annual report, which is costly to AT&T and may be inconvenient to these shareholders. Such shareholders may authorize us to discontinue mailing extra reports by marking the appropriate box on the proxy card for selected accounts. At least one account must continue to receive an annual report. Eliminating these duplicate mailings will not affect receipt of future proxy statements and proxy cards. To resume the

mailing of an annual report to an account, please call the AT&T **shareholder services number, 1-800-348-8288.**

Comments from shareholders about the proxy material or about other aspects of the business are welcome. Space is provided on the proxy card for this purpose. Although such notes are not answered on an individual basis, they are very helpful in assessing shareholder sentiment and in determining what kinds of additional information should be furnished in various Company publications.

On January 1, 1994, there were 1,352,478,356 common shares outstanding. Each common share is entitled to one vote on each matter properly brought before the meeting.

BOARD OF DIRECTORS

The board of directors has the responsibility for establishing broad corporate policies and for overseeing the overall performance of the Company. However, in accordance with corporate legal principles, it is not involved in day-to-day operating details. Members of the board are kept informed of the Company's business through discussions with the Chairman and other officers, by reviewing analyses and reports sent to them each month, and by participating in board and committee meetings.

The board held 13 meetings in 1993; the committees held 22 meetings. The average attendance at the aggregate of the total number of meetings of the board and the total number of committee meetings was 93%.

COMMITTEES OF THE BOARD

The board has established a number of committees, including the Audit Committee, the Compensation Committee, and the Committee on Directors, each of which is briefly described below. Other committees of the board are: the Corporate Public Policy Committee, the Employee Benefits Committee, the Executive Committee, the Finance Committee, and the Proxy Committee

(which votes the shares represented by proxies at the annual meeting of shareholders).

The Audit Committee meets with management to consider the adequacy of the internal controls of the Company and the objectivity of financial reporting; the committee also meets with the independent auditors and with appropriate Company financial personnel and internal auditors about these matters. The committee recommends to the board the appointment of the independent auditors, subject to ratification by the shareholders at the annual meeting. Both the internal auditors and the independent auditors periodically meet alone with the committee and always have unrestricted access to the committee. The committee, which consists of six non-employee directors, met five times in 1993.

The Compensation Committee administers management incentive compensation plans, including stock option plans. The committee makes recommendations to the board with respect to compensation of directors and of the officers as listed on page 48. The committee, which consists of five non-employee directors, met four times in 1993.

The Committee on Directors advises and makes recommendations to the board on all matters concerning directorship practices and the selection of candidates as nominees for election as directors. The committee, which consists of six non-employee directors, met two times in 1993. The committee recommended this year's candidates at the January 1994 board meeting.

In recommending board candidates, this committee seeks individuals of proven judgment and competence who are outstanding in their chosen activity; it considers such factors as anticipated participation in board activities, education, geographic location, and special talents or personal attributes. Shareholders who wish to suggest qualified candidates should write to the Vice President – Law and Secretary of the Company at 32 Avenue of the Americas, New York, NY 10013-2412, stating in detail the qualifications of such persons for consideration by the committee.

COMPENSATION OF DIRECTORS

Directors who are not employees receive an annual retainer of $30,000 and a fee of $1,500 for each board, committee, and shareholder meeting attended. The chairmen of the Audit Committee, Compensation Committee, and Finance Committee each receive an additional annual retainer of $7,500. Other non-employee directors who chair committees receive additional annual retainers of $5,000. Pursuant to the Company's Deferred Compensation Plan for Non-Employee Directors, 15% of the annual retainer for each non-employee director is deferred and credited to a portion of a deferred compensation account, the value of which is measured from time to time by the value of Company common shares (the "AT&T shares portion"). Directors may elect to defer the receipt of all or part of the remainder of their compensation into the AT&T shares portion or the cash portion of the deferred compensation account (the "cash portion"). The AT&T shares portion is credited on each dividend payment date for AT&T common shares with a number of deferred shares of common stock equivalent in market value to the amount of the quarterly dividend on the shares then credited in the accounts. The cash portion of the deferred compensation account earns interest, compounded quarterly, at an annual rate equal to the average interest rate for ten-year United States Treasury notes for the previous quarter, plus 5%. Directors who are also employees of the Company or a subsidiary of the Company receive no compensation for serving as directors.

The Company also provides non-employee directors with travel accident insurance when on Company business. A non-employee director may purchase life insurance sponsored by the Company. The Company will share the premium expense with the director; however, all the Company contributions will be returned to the Company at the earlier of (a) the director's death or (b) the later of age 70 or 10 years from the policy's inception. This benefit will continue after the non-employee director's retirement from the board.

Non-employee directors with at least five years' service are eligible for an annual retirement benefit equal to their annual retainer at retirement. The benefit begins at age 70 and is payable for life.

ELECTION OF DIRECTORS (Item A on Proxy Card)

The Proxy Committee intends to vote for the election of the 15 nominees listed on the following pages unless otherwise instructed on the proxy card. These nominees have been selected by the board on the recommendation of the Committee on Directors. If you do not wish your shares to be voted for particular nominees, please identify the exceptions in the appropriate space provided on the proxy card. Directors will be elected by a plurality of the votes cast. Any shares not voted (whether by abstention, broker non-vote, or otherwise) have no impact on the vote.

If at the time of the meeting one or more of the nominees have become unavailable to serve, shares represented by proxies will be voted for the remaining nominees and for any substitute nominee or nominees designated by the Committee on Directors or, if none, the size of the board will be reduced. The Committee on Directors knows of no reason why any of the nominees will be unavailable or unable to serve.

Directors elected at the meeting will hold office until the next annual meeting or until their successors have been elected and qualified. For each nominee there follows a brief listing of principal occupation for at least the past five years, other major affiliations, and age as of January 1, 1994.

NOMINEES FOR ELECTION AS DIRECTORS

Robert E. Allen, Chairman and Chief Executive Officer of AT&T since 1988; President and Chief Operating Officer of AT&T (1986-1988). Chairman and Chief Executive Officer of AT&T Technologies, Inc. (1986-1988); Chairman of AT&T International Inc. (1986-1987) and Chairman of AT&T Information Systems Inc. (1985-1986) (subsidiaries). Director of Bristol-Myers Squibb Co.; the Federal Reserve Bank of New York; and PepsiCo, Inc. Chairman of The Business Council. Director of AT&T since 1984; Chairman of the Executive and Proxy Committees. Age 58.

M. Kathryn Eickhoff, President of Eickhoff Economics Inc. (economic consultants) since 1987. Associate Director for Economic Policy, U.S. Office of Management and Budget (1985-1987). Director of National Westminster Bancorp Inc.; Tenneco Inc.; and The Upjohn Company. Director of AT&T since 1987; member of the Corporate Public Policy Committee and the Committee on Employee Benefits. Age 54.

Walter Y. Elisha, Chairman since 1983 and Chief Executive Officer since 1981 of Springs Industries, Inc. (textile manufacturing). Director of Springs Industries, Inc.; and Cummins Engine Company, Inc. Director of AT&T since 1987; member of the Compensation and Finance Committees and the Committee on Directors. Age 61.

Philip M. Hawley, retired Chairman and Chief Executive Officer of Carter Hawley Hale Stores, Inc. (department stores) (1983-1993). Director of Atlantic Richfield Co.; BankAmerica Corp. and its subsidiary, Bank of America, N.T. & S.A.; Johnson & Johnson; and Weyerhaeuser Company. Director of AT&T since 1982; Chairman of the Compensation Committee; member of the Committee on Directors and the Committee on Employee Benefits. Age 68.

Carla A. Hills, Chairman and Chief Executive Officer of Hills & Company (international consultants) since 1993. United States Trade Representative, Executive Office of the President (1989-1993). Partner in Weil, Gotshal & Manges (law firm) (1986-1989). Director of American International Group; Bechtel Group and its subsidiary, Bechtel Enterprises; Chevron Corp.; Time Warner Inc.; and UAL Corp. Director of AT&T since 1993; member of the Audit and Corporate Public Policy Committees. Age 59.

Belton K. Johnson, former owner of Chaparrosa Ranch for more than 19 years. Chairman of Belton K. Johnson Interests since 1981. Director of Tenneco Inc. Director of AT&T since 1974; member of the Executive, Corporate Public Policy, and Proxy Committees, and the Committee on Employee Benefits. Age 64.

Drew Lewis, Chairman and Chief Executive Officer of Union Pacific Corp. (transportation and environmental services) since 1987. Director of American Express Co.; FPL Group, Inc.; Ford Motor Company; and Union Pacific Corp. Director of AT&T since 1989; member of the Audit and Corporate Public Policy Committees and the Committee on Directors. Age 62.

Donald F. McHenry, President of IRC Group (international relations consultants) since 1981; University Research Professor of Diplomacy and International Relations, Georgetown University, since 1981. Director of Bank of Boston Corp. and its subsidiary, First National Bank of Boston; Coca-Cola Co.; International Paper Co.; and SmithKline Beecham Corp. Director of AT&T since 1986; Chairman of the Committee on Employee Benefits; member of the Finance Committee. Age 57.

Victor A. Pelson, Executive Vice President of AT&T and Chairman of the AT&T Global Operations Team since 1993; Group Executive, AT&T Communications Services (1989-1993); President, AT&T General Markets Group (1986-1989). Director of United Parcel Service of America, Inc. Director of AT&T since 1993. Age 56.

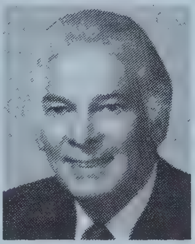
Donald S. Perkins, retired Chairman and Chief Executive Officer of Jewel Companies, Inc. (diversified retailer) (1970-1980). Director of Aon Corp.; Cummins Engine Company, Inc.; Illinois Power Co.; Inland Steel Industries; Kmart Corp.; Springs Industries, Inc.; and Time Warner Inc. Trustee of Northwestern University, the Putnam Funds, and LaSalle Street Fund. Director of AT&T since 1979; Chairman of the Committee on Directors; member of the Audit, Executive, Finance, and Proxy Committees. Age 66.

Henry B. Schacht, Chairman and Chief Executive Officer of Cummins Engine Company, Inc. since 1977. Director of CBS Inc.; The Chase Manhattan Corp. and its subsidiary, The Chase Manhattan Bank, N.A.; and Cummins Engine Company, Inc. Trustee of The Ford Foundation and The Yale Corporation. Director of AT&T since 1981; Chairman of the Corporate Public Policy Committee; member of the Audit Committee. Age 59.

Michael I. Sovern, President Emeritus and Chancellor Kent Professor of Law at Columbia University; President (1980-1993). Director of Chemical Banking Corporation and its subsidiary, Chemical Bank; Orion Pictures Corporation; and Warner-Lambert Co. Director of AT&T since 1984; Chairman of the Audit Committee; member of the Compensation Committee. Age 62.

Franklin A. Thomas, President of The Ford Foundation since 1979. Director of Aluminum Company of America; CBS Inc.; Citicorp and its subsidiary, Citibank, N.A.; and Cummins Engine Company, Inc. Director of AT&T since 1988; member of the Audit and Corporate Public Policy Committees, and the Committee on Directors. Age 59.

Joseph D. Williams, retired Chairman and Chief Executive Officer of Warner-Lambert Co. (pharmaceuticals, health care, and consumer products) (1985-1991). Director of Exxon Corp.; J.C. Penney Co., Inc.; Rockefeller Financial Services, Inc.; Therapeutic Antibodies Inc.; Thrift Drug, Inc.; and Warner-Lambert Co. Director of AT&T since 1984; Chairman of the Finance Committee; member of the Executive and Compensation Committees. Age 67.



Thomas H. Wyman, Chairman of S.G. Warburg & Co. Inc. since 1992 and Vice Chairman of S.G. Warburg Group PLC (U.K.) since 1993 (investment banking). Chairman of United Biscuits (Holdings) U.S. Ltd. (food products) (1989-1992). William Donaldson Faculty Fellow, Yale University School of Organization and Management (1987-1988). Chairman and Chief Executive Officer of CBS Inc. (1983-1986). Director of General Motors Corporation; Imperial Chemical Industries PLC (U.K.); S.G. Warburg Group PLC (U.K.) and S.G. Warburg & Co. Inc.; and United Biscuits (Holdings) PLC (U.K.). Director of AT&T since 1981; member of the Compensation and Finance Committees and the Committee on Directors. Age 64.

STOCK OWNERSHIP OF MANAGEMENT

The following table sets forth information concerning the beneficial ownership of the Company's common stock as of January 1, 1994, for (a) each director and nominee for director; (b) each of the named officers (the "named officers" as defined in the Compensation Report, herein) not listed as a director; and (c) directors and executive officers as a group. Except as otherwise noted, the nominee or family members had sole voting and investment power with respect to such securities.

	Number of Shares		
Name	Beneficially Owned (1)	Deferral Plans (2)	Total
(a)			
Robert E. Allen	575,927(3)	37,930	613,857
M. Kathryn Eickhoff	1,500	153	1,653
Walter Y. Elisha	8,447	548	8,995
Philip M. Hawley	1,000(4)	191	1,191
Carla A. Hills	400	738	1,138
Belton K. Johnson	5,016	79	5,095
Drew Lewis	4,000	79	4,079
Donald F. McHenry	622	79	701
Victor A. Pelson	159,900(5)	0	159,900
Donald S. Perkins	2,242(6)	79	2,321
Henry B. Schacht	1,055	483	1,538
Michael I. Sovern	1,200	79	1,279
Franklin A. Thomas	1,057	1,153	2,210
Joseph D. Williams	13,000	79	13,079
Thomas H. Wyman	1,000	263	1,263
(b)			
Robert M. Kavner	169,113(7)	2,872	171,985
Alex J. Mandl	113,737(8)	2,121	115,858
William B. Marx, Jr.	152,835(9)	2,121	154,956
Jerre L. Stead	100,421(10)	7,557	107,978
(c)			
Directors and Executive Officers as a Group	2,911,866(11)	96,116	3,007,982

Footnotes

1. No individual director and nominee for director or named officer beneficially owns 1% or more of the Company's outstanding common shares or the common shares of AT&T Capital Corporation, a majority-owned subsidiary of the Company, nor do the directors and executive officers as a group.

2. Share units held in deferred compensation accounts.

3. Includes beneficial ownership of 476,951 shares which may be acquired within 60 days pursuant to stock options and 36,000 restricted shares awarded under employee incentive compensation plans.

4. Mr. Hawley disclaims beneficial ownership of 433 common shares held by Mrs. Hawley.

5. Includes beneficial ownership of 147,136 shares which may be acquired within 60 days pursuant to stock options awarded under employee incentive compensation plans. Mr. Pelson disclaims beneficial ownership of 725 common shares held in a trust of which Mrs. Pelson is a co-trustee and co-remainder beneficiary.

6. Mr. Perkins as an investment company trustee also has shared voting and investment power over 905,850 common shares.

7. Includes beneficial ownership of 139,359 shares which may be acquired within 60 days pursuant to stock options and 18,543 restricted shares awarded under employee incentive compensation plans.

8. Includes beneficial ownership of 106,685 shares which may be acquired within 60 days pursuant to stock options awarded under employee incentive compensation plans.

9. Includes beneficial ownership of 144,486 shares which may be acquired within 60 days pursuant to stock options awarded under employee incentive compensation plans.

10. Includes beneficial ownership of 82,910 shares which may be acquired within 60 days pursuant to stock options awarded under employee incentive compensation plans.

11. Includes beneficial ownership of 1,751,878 shares which may be acquired within 60 days pursuant to stock options awarded under employee incentive compensation plans as well as 905,850 shares over which they have sole or shared voting and investment power as trustee.

RATIFICATION OF APPOINTMENT OF AUDITORS

(Item B on Proxy Card)

Subject to shareholder ratification, the board of directors, upon recommendation of the Audit Committee, has reappointed the firm of Coopers & Lybrand as the independent auditors to examine the Company's financial statements for the year 1994. Coopers & Lybrand has audited the Company's books for many years. **Your directors recommend that shareholders vote FOR such ratification.** Ratification of the appointment of auditors would require a majority of the votes cast thereon. Any shares not voted (whether by abstention, broker non-vote, or otherwise) have no impact on the vote. If the shareholders do not ratify this appointment, other independent auditors will be considered by the board upon recommendation of the Audit Committee.

Representatives of Coopers & Lybrand are expected to attend the annual meeting and will have the opportunity to make a statement if they desire and to respond to appropriate questions.

For the year 1993, Coopers & Lybrand also examined the financial statements of the Company's subsidiaries and provided other audit services to the Company and subsidiaries in connection with SEC filings, review of financial statements, and audits of pension plans.

DIRECTORS' PROPOSAL TO AUTHORIZE CHANGE IN THE CORPORATE NAME

(Item C on Proxy Card)

In January 1994, the board adopted, subject to shareholder approval, an amendment of the Company's Restated Certificate of Incorporation to change the name of the Company to "AT&T Corp." The current name of the Company is "American Telephone and Telegraph Company."

The Company adopted the name American Telephone and Telegraph more than a century ago. While over the years the name achieved a distinctive place in the annals of corporate America, it is also associated with old ways and outdated technologies.

Despite some feelings of nostalgia, the board believes it is appropriate at this time to adopt as the Company's name the initials AT&T by which the Company has increasingly been known in recent years.

Since the time of the divestiture of the Bell operating companies in 1984, the Company has devoted substantial resources to identifying itself in the public's mind as AT&T. On this the tenth anniversary of divestiture, the Company has been overwhelmingly successful in making AT&T one of the most readily recognized brand names in the U.S. Progress is being made to achieve a broad brand recognition outside the U.S. as well.

There will be relatively little cost associated with the change. Virtually no advertising will be required, for example, because advertising already carries the AT&T logo. The distinctive "T" ticker symbol will be kept, of course.

The new name—AT&T Corp.—will shed the dated imagery associated with the past. At the same time, it will further serve to identify the Company as what it is today—a forward-looking, high technology enterprise whose range of businesses, products, and services puts it on the leading edge of the information revolution.

The adoption of the proposed amendment of the Restated Certificate of Incorporation to change the corporate name will require the affirmative vote of the holders of a majority of the outstanding shares of common stock. Any shares not voted (whether by abstention, broker non-vote, or otherwise) have the effect of a negative vote.

Your directors recommend that shareholders vote FOR the adoption of the proposed amendment of the Company's Restated Certificate of Incorporation.

DIRECTORS' PROPOSAL TO APPROVE THE 1995 AT&T EMPLOYEE STOCK PURCHASE PLAN

(Item D on Proxy Card)

In January 1994, the board adopted, subject to shareholder approval, the 1995 AT&T Employee Stock Purchase Plan (the "Plan"). If approved by shareholders, the Plan provides eligible employees (defined below) with an opportunity to purchase AT&T common stock (the "Common Stock") through payroll deductions. The Plan is intended as an employment incentive and to encourage stock ownership in order to participate in the economic progress of the Company during the term of the Plan.

Shares Reserved for the Plan

The aggregate number of shares of Common Stock which may be purchased under the Plan shall not exceed 25 million, subject to adjustment in the event of stock dividends, stock splits, combination of shares, recapitalizations, or other changes in the outstanding Common Stock. Any such adjustment will be made by the board. Shares issued under the Plan may consist, in whole or in part, of authorized and unissued shares or treasury shares.

Eligible Participants

Employees of the Company or a subsidiary are eligible to participate, on a purely voluntary basis, in the Plan if they are employed:

(a) in the United States and are participants in the AT&T Management Pension Plan *or*

(b) outside the United States and are included in a group of employees designated by the Administrator (defined hereinafter) as being eligible for participation in the Plan.

Approximately 150,000 employees would have been eligible to participate as of January 1, 1994.

Material Features of the Plan

Until the Plan is terminated or the supply of shares reserved is exhausted, the Administrator may make such offerings as the Administrator determines appropriate. Each offering shall be for a limited period ending on such exercise dates as the Administrator determines. Each offering shall be for a period of not more than six months.

Each eligible employee on an exercise date shall be entitled to purchase whole shares of Common Stock at the purchase price equal to 85% of the average of the reported highest and lowest sale prices of shares of Common Stock on the New York Stock Exchange on each of the ten days immediately preceding the applicable exercise date. However, the purchase price shall not be less than the par value of the Common Stock.

Any eligible employee may participate in an offering by filing a stock purchase agreement (the "Stock Purchase Agreement") before an exercise date in accordance with rules and procedures established by the Administrator. Once an eligible employee has filed a Stock Purchase Agreement he or she will participate in the offering unless he or she is permitted to withdraw from the offering in accordance with rules and procedures established by the Administrator.

Payment for shares of Common Stock purchased under the Plan will be made by authorized payroll deductions from an eligible employee's Eligible Compensation. "Eligible Compensation" means an eligible employee's basic salary rate, lump sum merit awards, and incentive compensation payable from the Company or a subsidiary of the Company (a "Subsidiary"), but shall not include overtime, shift differentials, other premium pay, or awards under long- and short-term incentive plans for senior managers.

In his or her Stock Purchase Agreement, an eligible employee authorizes a deduction from his or her Eligible Compensation payable before the next exercise date. The maximum deduction is 10% of the Eligible Compensation and the minimum deduction is the amount necessary to purchase ten shares of Common Stock.

On each exercise date, the Company will use amounts deducted from the Eligible Compensation of each eligible employee to purchase the largest number of whole shares of Common Stock that can be purchased with the amount authorized by the eligible employee in his or her Stock Purchase Agreement for the purchase of Common Stock.

Any amount not used to purchase shares under the Plan shall be refunded to the eligible employee.

All funds received by the Company from the sale of Common Stock under the Plan may be used for any corporate purpose.

Tax Treatment

This Plan is not intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code of 1986, as amended. Therefore, employees will be deemed to have received taxable compensation income on an exercise date equal to the excess of the fair market value of the shares on the exercise date over the purchase price. The Administrator shall establish procedures for the Company to satisfy any applicable tax withholding obligations relating to the taxable compensation income. The Company will be entitled to a deduction from income equal to the amount the employees are required to report as compensation income.

Plan Administration and Termination

Subject to the general control of, and superseding action by, the board, the Senior Vice President–Human Resources of the Company (the "Administrator") has full power to administer the Plan. The Administrator may delegate any or all of the administrative functions under the Plan to such individuals, committees, or entities as the Administrator considers appropriate. The Administrator may adopt rules and procedures not inconsistent with the provisions of the Plan for its administration. The Administrator may adopt the form of Stock Purchase Agreement and all notices required under the Plan. The Administrator's interpretation and construction of the Plan is, subject as aforesaid, final and conclusive.

The board may at any time, or from time to time, alter or amend the Plan in any respect, except that, without approval of the shareholders of AT&T, no amendment may increase the number of shares reserved for purchase, or reduce the purchase price per share, under the Plan other than as described above.

The board shall have the right to terminate the Plan or any offering at any time for any reason. Unless terminated earlier, the Plan shall continue in effect through December 31, 1999.

Adoption of this proposal requires an affirmative vote by the holders of a majority of the outstanding Common Stock. Any shares not voted (whether by abstention, broker non-vote, or otherwise) have the effect of a negative vote. **The directors recommend that shareholders vote FOR the approval of the 1995 AT&T Employee Stock Purchase Plan.**

DIRECTORS' PROPOSAL TO APPROVE THE 1994 EMPLOYEE STOCK PURCHASE PLAN FOR AT&T GLOBAL INFORMATION SOLUTIONS COMPANY

(Item E on Proxy Card)

In January 1994, the board adopted, subject to shareholder approval, the 1994 Employee Stock Purchase Plan (the "1994 Plan") for AT&T Global Information Solutions Company (formerly NCR Corporation, "Global Information Solutions"). Global Information Solutions has had a stock purchase plan in place for over 20 years. The 1994 Plan is similar to its current stock purchase plan, which was approved by AT&T's shareholders in 1992. That plan will terminate in July 1994 and will be replaced, if approved by AT&T shareholders, by the 1994 Plan.

Shares Reserved for the 1994 Plan

The 1994 Plan provides eligible employees of Global Information Solutions with a means to purchase, through payroll deductions, up to ten million shares of AT&T common stock (the "Common Stock") at a discount, subject to adjustments under certain circumstances such as stock splits, stock dividends, recapitalization or other changes in the outstanding Common Stock.

Eligible Participants

Full-time employees of Global Information Solutions (or a subsidiary designated by the Chief Executive Officer, President, or Secretary of Global Information Solutions) who have completed six months of continuous service and certain employees of Global Information Solutions who were formerly employed by AT&T or its subsidiaries for a continuous period of six months are eligible to participate, on a purely voluntary basis, in the 1994 Plan. Approximately 41,000 employees would have been eligible to participate as of January 1, 1994.

Material Features of the 1994 Plan

Twice a year, on August 1 and February 1 of each Plan year, an offering will commence and continue for a period of up to six months (an "Offering"), during which eligible employees may elect to purchase Common Stock through payroll deductions of up to 10% of compensation, which deductions are made commencing with the Offering and ending on the last day of such Offering (the "Purchase Period"). The purchase price per share of Common Stock will be 85% of the average of the reported highest and lowest sale prices of shares of Common Stock on the New York Stock Exchange on the last day of the Purchase Period on which sales of Common Stock were made on that exchange. Only whole shares may be purchased, and at any Offering, no more than 1,150 shares can be purchased by a participant, subject to certain limitations imposed by Federal tax laws.

A participant may withdraw from the 1994 Plan at any time and the entire amount credited to his or her account will be refunded. If a participant terminates employment, the entire amount credited to his or her account will be used to purchase shares of Common Stock on the last day of the Purchase Period unless the participant's termination of employment occurs at least three months prior to the end of the Purchase Period, in which event, the entire amount in his or her account will be refunded. The revocation of the designated subsidiary status of a Global Information Solutions subsidiary by which a participant is employed will cause the entire amount credited to the participant's account to be refunded to him or her.

All funds received by the Company from the sale of Common Stock under the 1994 Plan may be used for any corporate purpose.

Tax Treatment

The 1994 Plan is intended to qualify as an employee stock purchase plan within the meaning of Section 423 of the Internal Revenue Code of 1986, as amended (the "Code"). Under the Code, an employee who elects to participate in an Offering under the 1994 Plan will not realize income at the time the Offering commences or when the shares purchased under the 1994 Plan are transferred to him or her. If an employee disposes of such shares after two years from the date the Offering of such shares commences and after one year from the date of the transfer of such shares to him or her, the employee will be required to include in income, as compensation for the year in which such disposition occurs, an amount equal to the lesser of (i) the excess of the fair market value of such shares at the time of disposition over the purchase price or (ii) 15% of the fair market value of such shares at the time the Offering commenced. The employee's basis in the shares disposed of will be increased by an amount equal to the amount so includable in his or her income as compensation, and any gain or loss computed with reference to such adjusted basis which is recognized at the time of the disposition will be long-term capital gain or loss. In such event, Global Information Solutions (or the subsidiary by which the employee is employed) will not be entitled to any deduction from income.

If any employee disposes of the shares purchased under the 1994 Plan within such two-year or one-year period, the employee will be required to include in income, as compensation for the year in which such disposition occurs, an amount equal to the excess of the fair market value of such shares on the date of purchase over the purchase price. The employee's basis in such shares disposed of will be increased by an amount equal to the amount includable in his or her income as compensation, and any gain or loss computed with reference to such adjusted basis which is recognized at the time of disposition will be capital gain or loss, either short-term or long-term, depending on the holding period for such shares. In the event of a disposition within such two-year or one-year period, Global Information Solutions (or the subsidiary by which the employee is employed) will be entitled to a deduction from income equal to the

amount the employee is required to include in income as a result of such disposition.

An employee who is a nonresident of the United States will generally not be subject to a U.S. Federal income tax with respect to the shares of Common Stock purchased under the 1994 Plan.

Plan Administration and Termination

The 1994 Plan provides for administration of the Plan by the Secretary of Global Information Solutions. The board of directors of Global Information Solutions may terminate the 1994 Plan at any time and, with the approval of the Senior Vice President – Human Resources of AT&T, amend it in any respect, except that the approval of AT&T shareholders is required for any amendment to increase the number of shares available for purchase under the 1994 Plan or to decrease the purchase price. Unless earlier terminated, the 1994 Plan will continue in effect until December 31, 1999, except that if at the end of any Purchase Period the aggregate funds available for purchase of Common Stock would purchase a greater number of shares than is available for purchase, the number of shares that would otherwise be purchased by each participant at the end of the Purchase Period will be proportionately reduced in order to eliminate the excess. The 1994 Plan would then automatically terminate after such Purchase Period. Upon expiration or termination of the 1994 Plan, any amount not applied toward the purchase of Common Stock will be refunded to the participant.

Adoption of this proposal requires an affirmative vote by the holders of a majority of the outstanding Common Stock. Any shares not voted (whether by abstention, broker non-vote, or otherwise) have the effect of a negative vote. **The directors recommend that shareholders vote FOR the approval of the 1994 Employee Stock Purchase Plan for AT&T Global Information Solutions Company.**

DIRECTORS' PROPOSAL TO APPROVE THE AT&T SHORT TERM INCENTIVE PLAN

(Item F on Proxy Card)

In January 1994, the board adopted, subject to shareholder approval, an amendment to the existing AT&T Short Term Incentive

Plan (the "Short Term Plan"). This amendment establishes an objective performance-based formula that effectively limits the awards to "covered employees" (as described herein) by setting the maximum awards payable under the Short Term Plan. This amendment is made desirable by the new Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code") to ensure the Federal tax deductibility of all awards under the Short Term Plan. In addition, this amended Short Term Plan is being submitted for shareholder approval to comply with Section 162(m). If approved by shareholders, the Short Term Plan provides senior managers of the Company and its affiliates with incentive compensation based upon the level of achievement of financial and other performance criteria. The Short Term Plan will enhance the ability of the Company and its affiliates to attract and retain individuals of exceptional managerial talent upon whom, in large measure, the sustained progress, growth and profitability of the Company depend.

Material Features of the Short Term Plan

Eligible Participants

Senior managers (i.e., managers above "E" level) employed by the Company or any of its affiliates and in active service at such position during a performance year (i.e., the year in which an award is earned) shall be able to participate in the Short Term Plan (whether or not so employed or living at the date an award is made); provided that, except in the case of a manager promoted to senior manager, the manager has at least three months of active service at such level during the performance year (excluding any time the manager was absent and receiving disability benefits). A senior manager is not rendered ineligible to be a participant by reason of being a member of the board.

Awards Under the Short Term Plan

Awards will be made each calendar year with respect to the immediately preceding performance year. Awards shall be paid as

soon as practicable after the performance year, except to the extent deferred pursuant to the AT&T Senior Management Incentive Award Deferral Plan.

The Compensation Committee shall approve target awards for each structure rate of management eligible for awards and establish financial and other performance criteria applicable to awards for such performance year.

Awards are based upon level of achievement of such performance criteria in addition to individual merit. Target awards serve as a guideline in making awards. Target awards shall be prorated for a particular performance year to account for: entrance to or exit from the level of senior manager; changes in structure rate; and receipt of disability benefits for more than three months during such performance year. Depending upon individual performance, an award may be more or less (including no award) than such target. Participants who are dismissed during or after a performance year are ineligible for an award.

In order to maintain a participant's rights in the event of a change in control (i.e., (a) a change in composition of the board such that at any time a majority of the board shall have been members of the board for less than twenty-four months, unless the election of each new director who was not a director at the beginning of the period was approved by at least two-thirds of the directors then still in office who were directors at the beginning of such period or (b) any person acquires 30% or more of the outstanding shares of the Company), the Compensation Committee may (i) provide for the acceleration of any time periods relating to realization of any award; (ii) make such adjustment to any target award to reflect such change in control; or (iii) cause the Company's obligation with respect to such target award to be assumed, or new obligations substituted therefor, by the acquiring or surviving corporation after such change in control.

Award Limitations to "Covered Employees"

Notwithstanding any other provision of the Short Term Plan to the contrary, the following provisions shall apply to any participant who is a "covered employee" within the meaning of Section 162(m) of the Code (i.e., the CEO and four most highly compensated officers of the Company, other than the CEO, as of the end of a performance year):

(a) The total of all awards payable to such participants who are "covered employees" shall not exceed 0.4% of the "Net Cash Provided by Operating Activities," as publicly disclosed in the Company's consolidated financial statements for such performance year, and the award to each participant with respect to such performance year shall not exceed such amount divided by the number of participants who are "covered employees" with respect to such performance year.

(b) The actual award to any participant under this provision will be determined by those Compensation Committee members who are "outside directors" (within the meaning of Section 162(m) of the Code), in their sole discretion, based on individual merit and financial and other performance criteria of the Company established by the Compensation Committee along with any adjustments (as described herein under "Plan Administration and Termination"). The award to any participant may be less than (including no award), but never more than, the amount determined under (a) above.

Other Provisions

No person shall have any claim to an award and there is no obligation for uniformity of treatment of participants. Awards may not be assigned or alienated.

Neither the Short Term Plan nor any action taken hereunder shall be construed as giving to any participant the right to be retained in the employ of the Company or any affiliate.

The Company or any affiliate shall have the right to deduct from any award any Federal, state or local taxes required with respect to such payment.

Awards will be included in the base for determining pensions, retirement and death related benefits under the AT&T Non-Qualified Pension Plan, the AT&T Mid-Career Pension Plan, and the AT&T Senior Management Long Term Disability and Survivor Protection Plan.

In the event an award is deferred under the AT&T Senior Management Incentive Award Deferral Plan, it will be reflected in the calculations of the above benefit plans as if paid as scheduled and not deferred.

A participant may designate a beneficiary or beneficiaries to receive all or part of an award made payable after such participant's death. Such beneficiary may be replaced or revoked by the participant at any time.

Plan Administration and Termination

Except as the Short Term Plan provides those members of the Compensation Committee who are "outside directors" with authority to grant awards to "covered employees," the Compensation Committee shall have full power to administer and interpret the Short Term Plan and to establish rules for its administration subject to resolutions, not inconsistent with the Short Term Plan, as may be adopted by the board. The Compensation Committee shall also have the authority to adjust awards to reflect unanticipated extraordinary major business developments, changes in the number of outstanding shares, and corporate reorganization during a performance year. In making any determinations under or referred to in the Short Term Plan, the Compensation Committee shall be entitled to rely on opinions, reports, or statements of officers or employees of the Company and its affiliates and of counsel, public accountants, and other professional or expert persons.

The Short Term Plan shall be governed by the laws of the State of New York and applicable Federal law.

The board may modify or terminate the Short Term Plan at any time, effective at such date as the board may determine. The Senior Vice President – Human Resources (or any successor) with the concurrence of the General Counsel, or the Vice President – Law for

Corporate Matters, of the Company (or any successor to either of such officer's responsibilities), shall be authorized to make minor or administrative changes or changes required by or made desirable by government regulation.

Adoption of this proposal requires an affirmative vote by the holders of a majority of the votes cast thereon. Any shares not voted (whether by abstention, broker non-vote, or otherwise) have no impact on the vote. **The directors recommend that shareholders vote FOR the approval of the AT&T Short Term Incentive Plan, as amended.**

SHAREHOLDER PROPOSALS

AT&T receives many suggestions from shareholders, some as formal shareholder proposals. All are given careful attention.

Proponents of six shareholder proposals have stated that they intend to present the following proposals at the annual meeting. Information on the shareholdings and addresses of the proponents and co-sponsors (if applicable) is available upon request from the Corporate Secretary's Department, Shareowner Relations, at 32 Avenue of the Americas, Room 2420E, New York, NY 10013-2412. The proposals and supporting statements are quoted below. The board has concluded it cannot support these proposals for the reasons given.

Shareholder Proposal 1:

Mrs. Evelyn Y. Davis, Watergate Office Building, 2600 Virginia Ave., N.W., Suite 215, Washington, DC 20037, has submitted the following proposal:

"RESOLVED: That the shareholders recommend that the Board take the necessary step that AT&T specifically identify by name and corporate title in all future proxy statements those executive officers, not otherwise so identified, who are contractually entitled to receive in excess of $100,000 annually as a base salary, together with whatever other additional compensation bonuses and other cash payments were due them.

"REASONS: In support of such proposed Resolution it is clear that the shareholders have a right to comprehensively evaluate the management in the manner in which the Corporation is being operated and its resources utilized. At present only a few of the most senior executive officers are so identified, and not the many other senior executive officers who should contribute to the ultimate success of the Corporation. Through such additional identification the shareholders will then be provided an opportunity to better evaluate the soundness and efficacy of the overall management. Last year the owners of 87,283,144 shares, representing approximately 10.3% of shares voting, voted FOR this proposal.

"If you AGREE, please mark your proxy FOR this proposal."

Your directors recommend a vote against this proposal. Last year this proposal was opposed by more than 763 million shares, nearly 90% of the shares voted. In a following section of this proxy statement the Compensation Committee of the board of directors reports on the Company's executive compensation policies and there is detailed information about the remuneration of the six most highly compensated executive officers. AT&T generally does not have contractual employment arrangements with its executive officers; however, in the occasional instance when such an arrangement arises, it is disclosed whenever required by Securities and Exchange Commission rules. In our view, going beyond the level of detail already furnished would not add meaningful information for shareholders assessing AT&T's compensation program and its effectiveness in responding to the competitive environment in which the Company operates. **Therefore, your directors again recommend that shareholders vote AGAINST this proposal.**

Shareholder Proposal 2:

The National Council of the Churches of Christ in the USA, 475 Riverside Drive, Fifth Floor, New York, NY 10115-0050, has submitted the following proposal:

"WHEREAS WE BELIEVE:

"The responsible implementation of sound environmental policy increases long-term shareholder value by increasing efficiency,

decreasing clean-up costs, reducing litigation, and enhancing public image and product attractiveness;

"Adherence to public standards for environmental performance gives a company greater public credibility than is achieved by following standards created by industry alone. In order to maximize public credibility and usefulness, such standards also need to reflect what investors and other stakeholders want to know about the environmental records of their companies;

"Standardized environmental reports will provide shareholders with useful information which allows comparisons of performance against uniform standards and comparisons of progress over time. Companies can also attract new capital from investors seeking investments that are environmentally responsible, responsive, progressive, and which minimize the risk of environmental liability.

"AND WHEREAS:

"The Coalition for Environmentally Responsible Economies (CERES)—which comprises large institutional investors with $150 billion in stockholdings (including shareholders of this Company), public interest representatives, and environmental experts—consulted with dozens of corporations and produced comprehensive public standards for both environmental performance and reporting. Over 50 companies have endorsed the CERES Principles—including the Sun Company, a Fortune-500 company—to demonstrate their commitment to public environmental accountability.

"In endorsing the CERES Principles, a company commits to work toward:

1. Protection of the biosphere
2. Sustainable use of natural resources
3. Waste reduction & disposal
4. Energy conservation
5. Risk reduction
6. Safe products and services
7. Environmental restoration
8. Informing the public
9. Management commitment
10. Audits and reports

“The full text of the CERES Principles and the accompanying CERES Report Form are available from CERES, 711 Atlantic Avenue, Boston MA 02110, tel: 617/451-0927.

“Concerned investors are asking the Company to be publicly accountable for its environmental impact, including collaboration with this corporate, environmental, investor, and community coalition to develop (a) standards for environmental performance and disclosure; (b) appropriate goals relative to these standards; (c) evaluation methods and tools for measurement of progress toward these goals; and (d) a format for public reporting of this progress.

“We believe this request is consistent with regulation adopted by the European Community for companies' voluntary participation in verified and publicly-reported eco-management and auditing.

“RESOLVED: Shareholders request the Company to endorse the CERES Principles as a commitment to be publicly accountable for its environmental impact.

“SUPPORTING STATEMENT

“We invite the Company to endorse the CERES Principles by (1) stating its endorsement in a letter signed by a senior officer; (2) committing to implement the Principles; and (3) annually completing the CERES Report. Endorsing these Principles complements rather than supplants internal corporate environmental policies and procedures.

“We believe that without this public scrutiny, corporate environmental policies and reports lack the critical component of adherence to standards set not only by management but also by other stakeholders. Shareholders are asked to support this resolution, to encourage our Company to demonstrate environmental leadership and accountability for its environmental impact.”

Your directors recommend a vote against this proposal. AT&T shares the proponent's abiding concern for a healthy planet and is working toward the environmental goals the proponent espouses. Indeed, we are committed to be a global leader in the way we treat the environment.

AT&T has historically demonstrated this commitment with aggressive programs to prevent pollution, reduce waste, promote recycling, and increase our purchases of recycled paper and other materials. These programs have won a Presidential citation and have received favorable recognition from government, industry, and environmentalists.

In early 1993, we eliminated virtually all emissions of ozone-depleting substances—including CFCs—from consumer and business products manufacturing, two and a half years ahead of a worldwide ban. We converted leased telephone billing for customers to recycled paper, over 150 million bill pages plus envelopes annually. We had already converted our annual report and proxy statement, all our direct mail materials, and selected business-customer billing to recycled paper.

Also in 1993, the AT&T Foundation committed up to $1 million to advance industrial ecology, an emerging concept that incorporates environmental considerations into product-design and manufacturing processes. Fellowships at six universities were awarded under this program.

Your Company is fully committed to sound environmental performance and agrees that responsible implementation increases long-term shareholder value. Many organizations, including government agencies, trade associations, and privately and publicly funded groups advance the same ultimate goal, but each with its own focus or set of priorities to which they would ask us to adhere. Your directors do not think it is in the Company's interest to endorse *this* set of principles.

Last year this proposal was opposed by more than 93% of the shares voting. **Your directors again recommend that shareholders vote AGAINST this proposal.**

Shareholder Proposal 3:

The Grey Nuns of the Sacred Heart, Quarry Road, Yardley, PA 19067, has submitted the following proposal:

"WHEREAS international trade has a significant impact on the environment and on people's ability to meet basic needs;

"WHEREAS the socially-concerned proponents of this resolution have pursued implementation of environmental standards and socially responsible conduct in the maquiladora workplace for more than five years and firmly believe there is a need for strict, enforceable standards of conduct for corporations operating in Canada, Mexico and the United States.

"WHEREAS in past years, over twenty U.S. corporations have been urged to adopt standards of conduct relative to their maquiladora operations in Mexico. These standards address:

- Responsible practices for handling hazardous wastes and protecting the environment: Corporations must be guided by the principle that they will follow regulations setting forth high standards of environmental protection and secure the best possible protection of the environment.
- Health and safety practices: Corporations must be guided by the principle that they will follow regulations setting forth high standards of occupational safety and health.
- Fair employment practices and standard of living: Corporations must respect workers' basic rights and human dignity.
- Community impact: Corporations must recognize social responsibility to communities in which they locate facilities and promote community economic development and improvements in quality of life.

"WHEREAS the United Nations Declaration of Human Rights states everyone has the right to 'just and favorable conditions of work,' 'protection against unemployment,' 'equal pay for equal work,' 'just and favorable remuneration ensuring...an existence worthy of

human dignity,' and 'join trade unions,' (Article 23) 'rest and leisure, including reasonable limitation of working hours,' (Article 24) 'a standard of living adequate for health and well being.' (Article 25)

"WHEREAS debate in the U.S., Canada, and Mexico about the North American Free Trade Agreement (NAFTA) exposed major problems with the maquiladora industry. These include severe environmental problems resulting from corporate irresponsibility, major workplace hazards and wages at such low levels as to be inadequate to feed an employee's family. U.S. officials responded by drafting side agreements on labor and the environment. We urge official corporate policy to correct past problems and chart a new course for the future.

"THEREFORE BE IT RESOLVED the shareholders request the Board of Directors to institute as official corporate policy that as our company continues or expands its business in Mexico, it will evaluate the environmental and human rights context in which we operate. The policy should include:

1. Prepare a publicly available plan explaining how we will improve work conditions, health benefits, vocational training and salaries to economically and socially responsible levels.
2. Disclose policies to prevent environmental harm, repair damaged environment where corporate practices may have caused destruction and prevent cross border dumping of toxic wastes.
3. Publish plans and progress in supporting infrastructure needs and community economic development.
4. Support the establishment of a council, with equal representation from Canada, Mexico, and the United States, to monitor progress in raising the standards of labor, health and environmental to meet goals for sustainable economic development."

Your directors recommend a vote against this proposal. AT&T is committed to a set of values applicable worldwide to its operations and the conduct of its employees. They include practicing fair employment, providing a safe workplace, protecting the environment, and being responsible corporate citizens in the communities in all countries where we have facilities. The values are reflected in AT&T's international human resource policy. (For a copy of the policy, write to AT&T Shareowner Relations, 32 Avenue of the Americas, Room 2420E, New York, NY 10013-2412.)

It is the Company's policy to provide fair, market-based compensation and benefit packages, safe and healthy workplaces, and a high quality of work life for all our workers and to promote protection of the environment where our employees live and work. We support these efforts through Company practices and good faith bargaining with certified employee representatives over terms and conditions, in accordance with applicable labor laws.

AT&T's environmental, safety and health programs in Mexico focus on compliance with applicable law and on the development and use of practices which protect the environment, our employees, and the community. For example, AT&T's Matamoros and Monterrey plants have already eliminated all emissions of chlorofluorocarbons (CFCs) from their manufacturing operations, well ahead of the 1994 corporate goal. Our plants in Guadalajara and Reynosa were designed to avoid the use of CFCs in their manufacturing operations. All hazardous wastes from our Mexico operations are transported to the U.S., where they are recycled or disposed of in a safe manner. AT&T Matamoros is currently installing a wastewater treatment facility, conducts a hazardous chemical awareness program, and has employee participation in quality improvement teams on safety and the environment.

Company equipment and processes in Mexico are comparable to those in the U.S., including careful chemical handling and storage, good process design and operation, and engineering controls where necessary. As required by law in Mexico, safety committees comprising union, management, production, and medical department representatives have been established at our manufacturing plants. The duties of the safety committees include safety inspections and monthly meetings.

In summary, AT&T's programs in Mexico reflect the commitment to our Company's worldwide values. In our view, AT&T is already addressing the concerns expressed by the proponents. **Therefore, your directors recommend that shareholders vote AGAINST this proposal.**

Shareholder Proposal 4:

Murray and Beatrice M. Katz, 11435 Monterrey Drive, Silver Spring, MD 20902, have submitted the following proposal:

"RESOLVED: That the shareholders of AT&T recommend that the Board of Directors institute a salary and compensation ceiling such that as to future employment contracts, no senior executive or director of the Company receive combined salary and other compensation which is more than two times the salary provided to the President of the United States," that is, no more than $400,000.

"REASONS: There is no corporation which exceeds the size and complexity of the United States government of which the President is the chief executive officer. Even most government agencies exceed the size, as measured by personnel and budget, of most private corporations. The President of the United States receives a salary of $200,000; even agency heads and members of Congress are paid only somewhat more than $100,000. The recommended ceiling is sufficient to motivate any person to do his best.

"The duties of the President of the United States are not comparable to those of senior executive officers or directors (the President has a much more demanding job). While the President has many valuable compensations which may exceed those of company executives, we use the salary of the President only as a reference point for shareholders to consider as they evaluate this resolution.

"Officers and directors of public corporations are the employees and not the owners, except as they may be shareholders in common with other stockholders. Yet, they give the appearance that they run the corporations primarily for their benefit and incidentally for the shareholders. The Board of Directors, a closed group which perpetuates itself, determines who is to be selected to the Board

and who is to be an officer of the company, as well as the compensation to be received. Directors and officers can run the corporation as if it were their property. Thus, officers may drain away millions of dollars in salary, stock options and other compensation. When the recommended ceiling on salary and compensation is exceeded, it demonstrates an expression of greed and abuse of power.

"Usually, there is no direct correlation between the profitability of a corporation and the compensation to officers. In many corporations, compensation increases even as profits fall. High compensation need not serve as an incentive for a better run or more profitable corporation. There is no shortage of qualified people who could do as good a job as the incumbent officers of the Corporation and would have no hesitation serving within the aforementioned pay ceiling.

"Any officer who believes he can better the corporation should be sufficiently motivated to purchase stock on the open market or to receive stock options as part of his salary and compensation package. To remain competitive in world markets we must cut our costs and not overcompensate directors and officers.

"If you AGREE, please mark your proxy FOR this resolution."

Your directors recommend a vote against this proposal. AT&T is committed to both rigorous cost control and to appropriately compensating its senior executive officers and directors.

As discussed in the Board Compensation Committee Report on Executive Compensation (included in the following section of this proxy statement), the Company's compensation programs are designed to link compensation to Company performance, to enhance shareowner value, and to retain the valuable talent necessary to ensure continued Company success. The board of directors and the Compensation Committee of the board must consider compensation within the context of the highly competitive market environment that characterizes the private corporate sector. The private sector values the services of certain people at a level in excess of that allowed by this proposal. Imposition of an arbitrary below-market ceiling on the total compensation of senior executives and directors, as suggested by this proposal, would, in the opinion

of the board, preclude the Company from attracting and retaining its senior management and board of directors and, as a result, would have an adverse impact on the quality of leadership, the Company's operations and, ultimately, on shareowner value.

For all these reasons the board of directors is of the opinion that limiting the total compensation of Company senior executives and directors to $400,000 is without merit. **Therefore, your directors recommend that shareholders vote AGAINST this proposal.**

Shareholder Proposal 5:

Mark Seidenberg, 66A N. Bedford Street, Arlington, VA 22201, has submitted the following proposal:

"The stockowners hereby recommend that the Board of Directors adopt the following policies for all dealings with China and the former Soviet Union:

"1. Goods or services produced in whole or part by slave or forced labor shall not be acceptable for delivery to the corporation, its subsidiaries, affiliates, or joint ventures. A suitable certificate of origin shall be required.

"2. Goods provided by the corporation, its subsidiaries, affiliates, or joint ventures shall not be sold to or otherwise provided to any facility utilizing slave or forced labor. A suitable certificate of use shall be required.

"3. The right of on-site inspection to determine the existence of slave or forced labor shall be vigorously pursued.

"4. The corporation shall cooperate promptly, energetically, and fully with the United States government and any international organization in their laws or policies to discourage the use of slave or forced labor.

"For purposes of this resolution, the term 'former Soviet Union' shall mean the countries of, and any combination thereof, Russia, Ukraine, Kazakhstan, Georgia, Armenia, Azerbaijan, Uzbekistan, Belarus (Byelorussia), Kyrgyzstan (Kirghizia), Moldova (Moldavia), Tajikistan (Tadzhikistan), and Turkmenistan (Turkmenia).

"SUPPORTING STATEMENT:

"Slave and forced labor is utterly repugnant to Americans. Our Civil War resulted in outlawing this heinous practice. A statute forbids importing any goods made in whole or part by forced labor.

"Nevertheless, slave and forced labor are widespread in China and the former Soviet Union. China's laogai camps and factories include about 20,000,000 slave and forced laborers, and the gulags of the former Soviet Union have about 4,000,000.

"These slave and forced labor facilities produce a wide range of products, including sophisticated machinery and electronics, and much of it is intended for export.

"AT&T has multi-billion dollar deals with China and the former Soviet Union. In China, numerous telephones and answering machines (including the 'Mickey Mouse' phone model) are produced for AT&T sale in the United States. AT&T provides telephone switching gear to China and intends to produce optical fibers there. For the former Soviet Union, AT&T expects to sell sophisticated communications gear to Russia, Ukraine, and Kazakhstan, and contemplates the manufacture of goods inside Russia.

"AT&T should not support the slave and forced labor system in either country. It should have explicit policies in place and specific provisions in all contracts with those countries to prevent AT&T from being tainted with the blood, sweat, and tears of the largest remaining slave and forced labor forces in the world.

"U.S. law does not cover the activities of AT&T overseas for use or sale overseas. It only covers imports of slave-made goods into the United States.

"If you can imagine any convincing argument against this policy, I can't. But, believe me, AT&T's board will think of something. I urge you to read the board's position and decide for yourself."

Your directors recommend a vote against this proposal. The proponent has crafted the proposal so that it might lead shareowners to believe that AT&T uses prison or slave labor in its operations in China or in the countries of the former Soviet Union. AT&T does not, and does not intend to, use prison or slave labor in its operations.

Many of the products AT&T provides to these countries are manufactured elsewhere. Where the products are manufactured or assembled in these countries, the operations are conducted in facilities that are managed by, or have been inspected by, the Company. In our view, the principles cited in the proposal are already addressed by current Company practices and policies. In addition, U.S. government policies and oversight activities are directed more generally to improving the human rights practices of these countries.

We are convinced that, in the long run, the kinds of products and services available from AT&T are important vehicles for opening the doors of communication and improving living and working conditions throughout the world.

Based on the information provided above, we believe the proposal has no useful bearing on the Company's business. **Therefore, your directors recommend that shareholders vote AGAINST this proposal.**

Shareholder Proposal 6:

James E. Irvine, Vice President of CWA Communications and Technologies, 501 Third Street, N.W., Washington, DC 20001-2797, has submitted the following proposal.

"WHEREAS the crisis in U.S. health care costs had led to a national public policy debate, and to legislative proposals, including the American Health Security Act (S. 491 and H.R. 1200) and the proposal of the Clinton Administration, which may significantly alter the regulatory environment with which the Company must deal; and

"WHEREAS it appears that health care reforms, if implemented, could result in significant cost savings which could assist the Company in improving profits, maintaining competitiveness, improving labor-management relations, and enhancing shareholder value;

"THEREFORE BE IT RESOLVED:

That the shareholders of American Telephone & Telegraph Co. ('Company') request that the Board of Directors establish a Committee composed of four members of the Board, in order to evaluate the impact of various health care proposals on the

Company, including the American Health Care Security Act and the proposal of the Clinton Administration and to prepare a report of its findings, for the purposes of: (1) providing advice and information to the Board concerning strategic decisions, or other major policy decisions, that may be necessary to achieve significant cost savings in a reformed regulatory environment; and (2) providing information to shareholders, who may request copies of the report, so that they may evaluate the potential impact of health care reform on the Company in making decisions to buy, sell or hold the Company's securities.

"STATEMENT OF SUPPORT

"The Company faces a unique opportunity to accrue significant costs savings, maintain competitiveness, improve labor-management relations, and enhance shareholder value.

"For example, in the Clinton Administration's materials concerning the economic effects of health care reform, which were reprinted by BNA's Health Care Policy Report on October 11, 1993, it is declared:

> 'the rising cost of health care is a hidden tax on employers—hurting business, depressing wages, limiting job creation and threatening our competitiveness. The bottom line is this: health care reform will lower business costs, raise wages, and increase opportunities for workers.'

"According to the Administration materials reprinted by BNA, 'Businesses that currently provide insurance pay more than true cost since providers overcharge them to make up for care to the uninsured.' In addition the materials state that savings would be achieved by eliminating the cost of an estimated 20 million '"free riders"' who 'are insured through a spouse's policy.' In addition the Washington Post has reported (September 25, 1993) that companies could save an estimated $4.5 to $5 billion a year under the Clinton health plan, because it calls for government, rather than corporations, to pay the health care costs of those who retire before the age of 65.

"Under these circumstances, the Company will benefit from a thorough review of the health care reform options in order to ensure that it avails itself of every opportunity to achieve costs savings that could improve the Company's profits, maintain

competitiveness, improve labor-management relations, and enhance shareholder value.

"For the reasons stated above, we urge you to vote YES on this proposal."

Your directors recommend that shareholders vote against this proposal. The Administration and a number of members of Congress have introduced bills that seek to address the complex issue of health care reform. Preparing reports on such bills—which would likely change even as the reports were being done—would, in our view, be an unnecessary and inappropriate use of corporate resources.

At the same time, we recognize our responsibility to our shareowners to manage the business prudently, including the provision of health care benefits that make the Company an attractive place to work for qualified employees committed to the Company's goals. In recognition of the importance of having good benefits for employees while controlling costs for shareowners, the AT&T board of directors already has in place a Committee on Employee Benefits that is charged with keeping informed about all employee benefit plans.

There is as yet no national consensus on how best to achieve the goal of health care reform and it is far too early to do a report or predict the final outcome of legislation. However, the Administration has made it clear that it is interested in constructive dialogue about how best to attain its goals. AT&T intends to participate in the national dialogue as various provisions of the bills evolve, and to contribute insight about its experience in managing the quality and cost of health care coverage for employees.

We believe we are already addressing the matter of pending health care reform in a constructive manner that considers both shareowners and employees. **Therefore, your directors recommend that shareholders vote AGAINST this proposal.**

Approval of the preceding shareholder proposals would require a majority of the votes cast thereon. Any shares not voted (whether by abstention, broker non-vote, or otherwise) have no impact on the vote.

SUBMISSION OF SHAREHOLDER PROPOSALS

Proposals intended for inclusion in next year's proxy statement should be sent to the Vice President – Law and Secretary of the Company at 32 Avenue of the Americas, New York, NY 10013-2412, and must be received by November 1, 1994.

OTHER MATTERS TO COME BEFORE THE MEETING

In addition to the matters described above, there will be an address by the Chairman and a general discussion period during which shareholders will have an opportunity to ask questions about the business.

If any matter not described herein should come before the meeting, the Proxy Committee will vote the shares represented by it in accordance with its best judgment. At the time this proxy statement went to press, the Company knew of no other matters which might be presented for shareholder action at the meeting.

BOARD COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The Compensation Committee is composed of five independent non-employee directors. The committee is responsible for setting and administering executive officer salaries and the annual bonus and long-term incentive plans that govern the compensation paid to all senior managers of the Company, except that the full board (other than directors who are employees) is responsible for setting and administering salaries and the annual bonus for the officers listed on page 48 (the "named officers") based upon recommendations of the committee. The following report represents the actions of the committee and the board regarding compensation paid to the named officers during 1993.

Compensation Philosophy

The Company's compensation programs are designed to link executives' compensation to the performance of the Company. For example, the Chairman's annual bonus and long-term awards are performance driven incentives and account for 73% of his total compensation structure. The other named officers have approximately 60% of their total compensation at risk in performance driven incentive plans. We target executive competitive compensation levels at the mean of a select group of large, market-focused, progressive companies with whom we compete for senior executive talent. The Company's competitors for executive talent are not necessarily the same companies that would be included in a peer group established to compare shareholder returns.Thus, the comparable companies for purposes of executive compensation are not the same as the peer group index used in the Five-Year Performance Comparison graph included in this proxy statement.

The target executive compensation levels determined with reference to the comparable market survey sample described above require that the compensation paid to the Company's top five officers exceed the qualifying compensation limit for deductibility under Section 162(m) of the Internal Revenue Code of 1986, as amended; therefore the Company has taken steps to mitigate the negative impact of this IRS provision on the shareowners. For example, our long-term incentive plan already qualifies for exemption as a shareholder approved performance driven plan, and we have a salary and incentive deferral plan in place.

The committee has developed executive compensation governing principles that provide guidance to the design and operation of the senior management compensation plans. These principles address key areas of AT&T senior executive compensation policy such as the identification of the markets to be surveyed, and the flexibility of the compensation programs to attract strategic executive hires to address global markets.

The committee has also developed governing principles for review of officer performance. This guideline ensures that a process is in place that links executive officer compensation to corporate performance levels. This review process identifies the necessary steps to design, approve, and implement the AT&T senior executive compensation programs.

The Company's executive compensation program consists of two key elements: (1) an annual component, i.e., base salary and annual bonus and (2) a long-term component, i.e., performance shares, stock options, and restricted stock. The policies with respect to each of these elements, as well as the basis for determining the compensation of the Chairman of the Board and CEO, Mr. Allen, are described below.

(1) Annual Component: Base Salary and Annual Bonus

Base Salary: Base salaries for executive officers are determined with reference to a position rate for each officer. Annually, these position rates are determined by evaluating the responsibilities of the position and comparing it with other executive officer positions in the marketplace. Annual salary adjustments are determined by the Company's performance and the individual's contribution to that performance. For those executive officers responsible for particular business units, the financial and non-financial results (e.g., recognition within respective industries) of their business units are also considered.

The committee determines the salary recommendation for the named officers. While there are no individual performance matrices or pre-established weightings given to each factor, these salary recommendations are based on performance criteria such as:

- financial performance with a balance between long- and short-term earnings and revenue growth,
- long-term strategic decisions,
- initiatives to globalize the Company,
- development of the leadership team,
- response to a rapidly changing competitive environment, and
- relative position to salary structure.

Annual Bonus: The annual bonus for the Chairman and the named officers is dependent on the Company's performance relative to pre-set financial, employee, customer, and individual performance targets. The financial target is based on Economic Value Added ("EVA"), which measures the return on investment that enhances shareholder value. Employee satisfaction results are measured by an index called People Value Added ("PVA"). Components of this

measurement are derived from an annual employee survey that measures employee perceptions of executive behavior such as: sharing roles and responsibilities, leadership, empowerment, and respect for individuals. The customer measure is Customer Value Added ("CVA") and it measures the relative value that customers perceive when our products are compared with those of our competitors. Targets for these measures were reviewed and approved by the committee. Payments under the Company's annual incentive plan are tied to the Company's level of achievement of the annual EVA, PVA, and CVA targets which comprise approximately 80% of the annual bonus. Individual performance awards are based on individual achievement considering the same factors as those used for base salary and comprise approximately 20% of the annual bonus. Award targets are related to survey results of comparable companies and are based on a percent of base salary. Actual awards to individuals are reviewed by the committee and recommended to the board for approval.

(2) Long-Term Component: Performance Shares, Stock Options, and Restricted Stock

To align shareholder and executive officer interests, the long-term component of the Company's executive compensation program uses grants whose value is related to the value of Company common shares. Grants of performance shares, stock options, and restricted stock are made under the AT&T 1987 Long Term Incentive Program which was approved by the shareholders. Historically, performance shares and stock options have been granted annually based on position rate, while restricted stock awards are granted on a selective basis. The size of annual performance share and stock option award levels are related to survey results of comparable companies in the marketplace. The size of previous grants and the number of shares held by an executive are not considered in determining annual award levels. Our target is to deliver half of this long-term incentive value via performance shares and half via stock options. The awards provide rewards to executives upon creation of incremental shareowner value and the attainment of long-term goals.

Performance Shares: Performance shares, which are awards of units equivalent in value to AT&T common shares, are awarded

annually in numbers based on an executive's position rate. Payout of 0% to 150% of such performance shares is made in the form of cash and/or AT&T common shares at the end of a three-year performance period based on the Company's return-to-equity ("RTE") performance compared with a target.

Stock Options: Stock options are granted annually to executive officers also in numbers based on their position rate. Like performance shares, the magnitude of such awards is determined annually by the committee. Stock options are granted with an exercise price equal to or greater than the fair market value of AT&T common shares on the day of grant. Stock options are exercisable between one and ten years from the date granted. Such stock options provide incentive for the creation of shareholder value over the long term since the full benefit of the compensation package cannot be realized unless an appreciation in the price of Company common shares occurs over a specified number of years.

Restricted Stock: Restricted stock awards are granted occasionally to executive officers under the AT&T 1987 Long Term Incentive Program. Restricted stock is subject to forfeiture and may not be disposed of by the recipient until certain restrictions established by the committee lapse. Recipients of restricted stock are not required to provide consideration other than the rendering of services or the payment of any minimum amount required by law.

CEO Compensation

During 1993, the Company's most highly compensated officer was Robert E. Allen, Chairman of the Board and CEO. Mr. Allen's 1993 performance was reviewed by the committee which made recommendations to the board concerning the annual component (base salary and annual bonus) and approved the long-term component (performance shares, stock options, and restricted stock) of his compensation. These actions were predicated on the considerations discussed below.

A substantial portion of Mr. Allen's short-term incentive compensation is based on measurements of success with our three key stakeholders: shareholders, customers and employees.

The shareholder element was measured by success relative to an EVA target for the year of $2 billion. Final results for 1993 indicate that this target was exceeded. The 1993 employee survey results for PVA measurement targets were met: significant improvements were realized in areas of leadership, empowerment, and respect for individuals. During 1993, the CVA target of making significant progress in implementing a Company-wide customer satisfaction measurement program was also met. This work will continue in 1994.

An AT&T performance share payout was made in 1993 based on an aggressive average RTE target for the performance period from 1990 to 1992. The actual average return achieved was 91.4% of the targeted RTE target and these results yielded a payout of 68.7% of the performance shares awarded to Mr. Allen at the beginning of 1990.

In addition to leading the Company through a financially successful year and achieving his employee and customer satisfaction targets, Mr. Allen strengthened the Company's global position through new hires from outside AT&T, key alliances, and the implementation of a global management model incorporating a shared management accountability concept. The merger with McCaw now in progress was widely recognized as a bold step in positioning the Company in one of the fastest growing areas of the telecommunications business. Moreover, the Company together with its unions adopted the "Workplace of the Future" program which increases employee participation and involvement in the operation of our business units. The program is considered a model of labor-management cooperation. In these and other initiatives, Mr. Allen continues to strengthen the confidence and dedication of employees and to position the Company to share in the future growth of our industry.

The Compensation Committee

Philip M. Hawley, Chairman
Walter Y. Elisha
Michael I. Sovern
Joseph D. Williams
Thomas H. Wyman

SUMMARY COMPENSATION TABLE

Name and Principal Position (1)	Year	Annual Compensation(2)			Long-Term Compensation(2)			
					Awards		Payouts	
		Salary ($)	Bonus ($)	Other Annual Compen-sation(3) ($)	Restricted Stock Award(s)(4) ($)	Options/ SARs (#)	LTIP Payouts(5) ($)	All Other Compen-sation(6) ($)
Robert E. Allen	1993	1,032,000	1,356,700	128,082	0	72,854	1,348,458	118,166
Chairman of the Board and	1992	983,000	1,155,700	119,785	0	72,854	1,190,226	79,941
CEO	1991	945,000	1,116,200	—	0	312,526(7)	637,964	—
Victor A. Pelson	1993	606,334	489,600	60,601	0	34,629	226,726	56,422
Executive Vice President —	1992	541,000	441,200	49,008	0	30,220	262,360	34,425
AT&T and Chairman of the	1991	454,750	360,600	—	0	200,970(7)	191,902	—
Global Operations Team								
Jerre L. Stead (8)	1993	578,000	466,000	209,985	0	30,220	294,631	86,795
Executive Vice President —	1992	—	—	—	—	—	—	—
AT&T and CEO of Global	1991	—	—	—	—	—	—	—
Information Solutions								
Robert M. Kavner	1993	550,000	480,800	66,917	0	30,220	192,325	45,359
Executive Vice President —	1992	504,000	388,200	54,713	0	28,654	222,363	27,838
AT&T and CEO of Multimedia	1991	426,250	325,900	—	0	199,589(7)	173,236	—
Products & Services								
Alex J. Mandl (9)	1993	554,167	442,900	43,036	0	30,220	226,726	45,347
Executive Vice President —	1992	492,000	344,100	148,813	0	23,318	260,043	7,607
AT&T and CEO of	1991	187,500	337,900	—	0	246,987(7)	0	—
Communications Services								
William B. Marx, Jr.	1993	545,000	452,067	51,043	0	30,220	226,725	51,378
Executive Vice President —	1992	507,000	397,100	44,780	0	30,220	262,360	28,141
AT&T and CEO of	1991	420,000	350,400	—	0	200,970(7)	107,898	—
Network Systems								

1. Includes Chairman of the Board and Chief Executive Officer and the five other most highly compensated executive officers as measured by salary and bonus.
2. Compensation deferred at the election of named officers is included in the category (e.g., bonus, LTIP payouts) and year it would have otherwise been reported had it not been deferred.
3. Includes (a) payments of above-market interest on deferred compensation, (b) dividend equivalents paid with respect to long-term performance shares prior to end of three-year performance period, or other earnings on long-term incentive compensation paid during the year, (c) tax payment reimbursements, and (d) the value of personal benefits and perquisites (Mr. Mandl had personal benefits and perquisites in 1992 of $84,043). No disclosure is required in this column for fiscal years ended before December 15, 1992.
4. On December 31, 1993, the number and value of all outstanding grants of restricted stock held by named officers were as follows: Mr. Allen 36,000/$1,890,000 and Mr. Kavner 18,543/$973,508.
5. Includes distribution in 1993 to Messrs. Allen, Pelson, Stead, Kavner, Mandl, and Marx of performance shares whose three-year performance period ended December 31, 1992. The value of 12,000 AT&T Restricted Shares which vested in 1993 is also reflected in Mr. Allen's payout for that year.
6. In 1993, includes (a) Company contributions to savings plans (Mr. Allen $9,434; Mr. Pelson $9,120; Mr. Stead $9,434; Mr. Kavner $9,434; Mr. Mandl $9,434 and Mr. Marx $9,434), (b) dollar value of the benefit of premiums paid for split-dollar life insurance policies (unrelated to term life insurance coverage) projected on an actuarial basis (Mr. Allen $78,692; Mr. Pelson $34,986; Mr. Stead $43,361; Mr. Kavner $25,066; Mr. Mandl $35,913 and Mr. Marx $30,958), (c) payments equal to lost Company savings match caused by IRS limitations (Mr. Allen $30,040; Mr. Pelson $12,316; Mr. Kavner $10,859, and Mr. Marx $10,986) and (d) a $34,000 deferred hiring bonus for Mr. Stead. No disclosure is required in this column for fiscal years ended before December 15, 1992.
7. In 1991, from 61% to 88% of the stock option grants to the named officers reflect special grants. Twenty-five percent of the special grants were made with an exercise price equal to the fair market value of a share at grant ($38.6875 per share), 25% with an exercise price equal to the fair market value of a share plus 20% ($46.4250 per share), 25% with an exercise price equal to the fair market value of a share plus 30% ($50.2938 per share), and the remaining 25% with an exercise price equal to the fair market value of a share plus 50% ($58.0313 per share).
8. Mr. Stead became an executive officer of the Company in 1993; therefore his compensation for 1991 and 1992 is not required to be disclosed.
9. Mr. Mandl was hired by the Company and became an executive officer of the Company in August 1991. The compensation disclosed for 1991 relates only to a partial year.

OPTION GRANTS IN 1993

Name	Individual Grants				
	Options Granted (1) (#)	% of Total Options Granted to Employees	Exercise Price ($/Sh)	Expiration Date	Grant Date Present Value (2) ($)
Robert E. Allen	72,854	1.5	50.8125	1-5-03	852,392
Victor A. Pelson	30,220	0.7	50.8125	1-5-03	353,574
	4,409		63.7500	8-2-03	61,770
Jerre L. Stead	25,970	0.6	50.8125	1-5-03	303,849
	4,250		56.1250	5-2-03	53,508
Robert M. Kavner	30,220	0.6	50.8125	1-5-03	353,574
Alex J. Mandl	25,880	0.6	50.8125	1-5-03	302,796
	4,340		63.7500	8-2-03	60,803
William B. Marx, Jr.	30,220	0.6	50.8125	1-5-03	353,574

Footnotes

1. Options become exercisable one year after the grant date.

2. In accordance with Securities and Exchange Commission rules, the Black-Scholes option pricing model was chosen to estimate the grant date present value of the options set forth in this table. The Company's use of this model should not be construed as an endorsement of its accuracy at valuing options. All stock option valuation models, including the Black-Scholes model, require a prediction about the future movement of the stock price. The following assumptions were made for purposes of calculating the Grant Date Present Value: for all grants the option term is assumed to be seven years; for options with an exercise price of $50.8125 the assumptions were volatility at .1963, dividend yield at 3.41% and interest rate at 6.64%; for options with an exercise price of $63.75 the assumptions were volatility at .1921, dividend yield at 3.14% and interest rate at 5.60%; and for options with an exercise price at $56.125 the assumptions were volatility at .1939, dividend yield at 3.26% and interest rate at 5.86%. The real value of the options in this table depends upon the actual performance of the Company's stock during the applicable period.

AGGREGATED OPTION/SAR EXERCISES IN 1993 AND YEAR-END VALUES

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Unexercised Options/SARs at Year End (#) Exercisable/ Unexercisable	Value of In-the-Money Options/SARs at Year End ($) Exercisable/ Unexercisable
Robert E. Allen	0	0	404,097/ 260,354	7,760,254/ 640,516
Victor A. Pelson	32,280	869,295	116,916/ 165,879	1,699,086/ 413,299
Jerre L. Stead	0	0	56,940/ 30,220	778,368/ 43,824
Robert M. Kavner	33,812	987,511	109,391/ 161,470	1,573,209/ 413,299
Alex J. Mandl	0	0	80,805/ 219,720	1,094,675/ 1,408,155
William B. Marx, Jr. ..	36,370	999,076	114,266/ 161,470	1,653,042/ 413,299

LONG-TERM INCENTIVE PLANS—AWARDS IN 1993

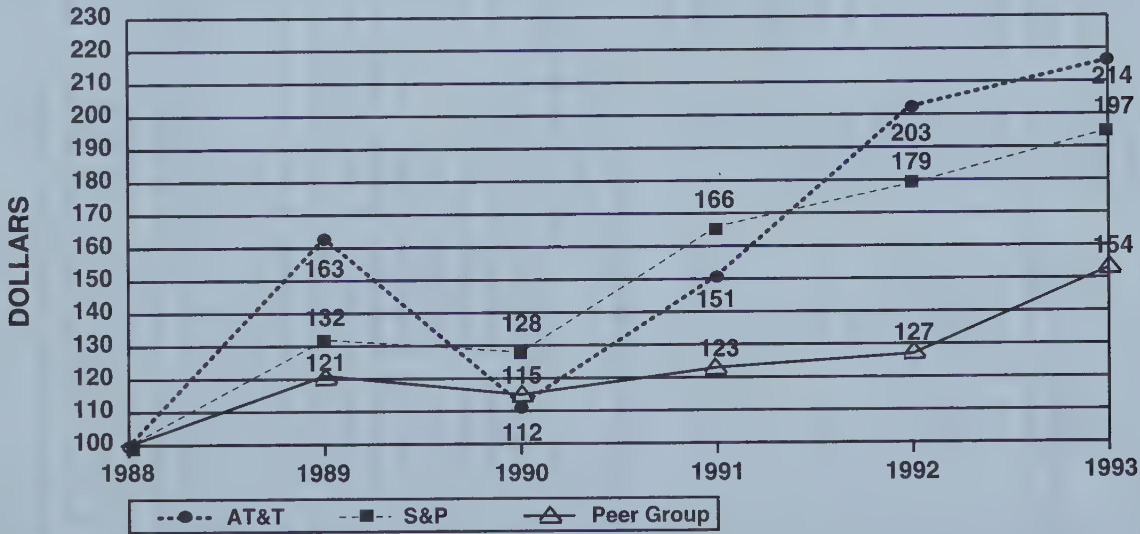
Name	Number of Performance Shares	Performance Period Until Maturation or Payout	Estimated Future Payouts of Performance Shares Under Non-Stock Price Based Plan (1) Threshold (#)	Target (#)	Maximum (#)
Robert E. Allen	21,114	1993-1995	5,279	21,114	31,671
Victor A. Pelson	10,047	1993-1995	2,512	10,047	15,071
Jerre L. Stead	8,783	1993-1995	2,196	8,783	13,175
Robert M. Kavner	8,783	1993-1995	2,196	8,783	13,175
Alex J. Mandl	8,783	1993-1995	2,196	8,783	13,175
William B. Marx, Jr.	8,783	1993-1995	2,196	8,783	13,175

Footnotes

1. Payout of awards is tied to achieving specified levels of return-to-equity ("RTE"). The target amount will be earned if 100% of the targeted RTE rate is achieved. The threshold amount will be earned at the achievement of 77% of the targeted RTE rate and the maximum award amount will be earned at achieving 113% of the targeted RTE rate. If less than 77% of the targeted RTE rate is achieved, an award payout will not be earned. Awards will be distributed as common stock of the Company, or as cash in an amount equal to the value of those shares, or partly in common stock and partly in cash.

FIVE-YEAR PERFORMANCE COMPARISON

The graph below provides an indicator of cumulative total shareholder returns for the Company as compared with the S&P 500 Stock Index and a Peer Group[1]



Assumes $100 invested on December 31, 1988 in AT&T Common Stock, the S&P 500 Index and Peer Group Common Stock

Total Shareholder Returns Assume Reinvestment of Dividends

Footnote

1. The peer group comprises the largest companies worldwide which compete against the Company in its two industry segments of information movement and management, and financial services and leasing. None of the companies competing with AT&T in information movement and management offers a fully comparable range of products and services, although each is widely recognized as a competitor of AT&T. The returns of each company have been weighted according to their respective stock market capitalization for purposes of arriving at a peer group average. The members of the peer group are as follows: American Express Company; Ameritech Corporation; Apple Computer, Inc.; Bell Atlantic Corporation; BellSouth Corporation; Cable & Wireless p.l.c.; Digital Equipment Corp.; GTE Corporation; Hewlett-Packard Co.; Intel Corp.; International Business Machines Corporation; ITT Corporation; L. M. Ericsson Telefonaktiebolaget; MCI Communications Corp.; Motorola, Inc.; NEC Corp.; Northern Telecom Limited; NYNEX Corporation; Pacific Telesis Group; Southwestern Bell Corporation; Sprint Corporation; Texas Instruments Incorporated; U S WEST, Inc.; and Xerox Corporation.

PENSION PLANS

The Company maintains the AT&T Management Pension Plan, a non-contributory pension plan which covers all management employees, including Messrs. Allen, Pelson, Stead, Kavner, Mandl, and Marx. The normal retirement age under this plan is 65; however, retirement before age 65 can be elected under certain conditions.

Under the AT&T Management Pension Plan, annual pensions are computed on an adjusted career average pay basis. The adjusted career average pay formula is the sum of (a) 1.5% of the average pay for the three years ending December 31, 1989, times the number of years of service prior to January 1, 1990, plus (b) 1.6% of pay subsequent to December 31, 1989. Only the basic salary is taken into account in the formula used to compute pension amounts. As a result of an amendment to the plan in 1989, an enhanced pension benefit is available to certain eligible employees. The enhanced pension benefit, which is calculated as of December 30, 1989, by adding five to the age and number of years of service of these employees, remains in effect until the employee's actual age, service, and compensation yield a greater pension benefit.

The Company also maintains the AT&T Non-Qualified Pension Plan. Under the plan, annual pensions for Messrs. Allen, Pelson, Stead, Kavner, Mandl, and Marx and other senior managers are computed based primarily on actual annual bonus awards under the Company's Short Term Incentive Plan. Pension benefits under this plan will generally commence at the same time as benefits under the AT&T Management Pension Plan. The annual pension amounts payable under this plan are equal to the greater of the amounts computed under the Basic or Alternate Formula described below.

Basic Formula:

> The sum of (a) 1.5% of the average of the actual annual bonus awards for the three-year period ending December 31, 1989, times the number of years of service prior to January 1, 1990, plus (b) 1.6% of the actual annual bonus awards subsequent to December 31, 1989.

Alternate Formula:

The excess of (a) 1.7% of the adjusted career average pay, over (b) 0.8% of the covered compensation base, times years of service to retirement minus the AT&T Management Pension Plan amount. For purposes of this formula, adjusted career average pay is determined by dividing the sum of the employee's total adjusted career income used for purposes of the AT&T Management Pension Plan, plus the income figure used for purposes of the basic formula, by the employee's actual term of employment at retirement. The covered compensation base used in this formula is the average of the maximum wage amount on which an employee was liable for social security tax for each year beginning with 1958 and ending with 1993. In 1993, the covered compensation base was $22,800.

In 1993, an Alternative Minimum Formula ("AMF"), applicable to active senior managers with five years of service who are participants in the AT&T Non-Qualified Pension Plan as of December 31, 1993, was established. The annual pension amount payable under the AMF is equal to the greater of the amounts computed under formulas A and B plus an additional percent increase factor as described below:

Formula A:

The sum of (a) 1.5% of the average of the total compensation for the three-year period ending December 31, 1992, times the number of years of service prior to January 1, 1993, plus (b) 1.6% of the total compensation from January 1, 1993, to December 31, 1993. For purposes of this Formula A, total compensation shall be basic salary plus actual annual bonus awards. The pension amounts resulting from this Formula A will be reduced to reflect retirements prior to age 55.

Formula B:

The excess of (a) 1.7% of the adjusted career average pay, over (b) 0.8% of the covered compensation base, times years of service to December 31, 1993. For purposes of this Formula B, adjusted career average pay is determined by dividing the sum of the employee's total adjusted career income used for purposes of Formula A, by the employee's actual term of

employment to December 31, 1993. The covered compensation base used in this Formula B is the average of the maximum wage amounts on which an employee was liable for social security tax for each year beginning with 1958 and ending with 1993. In 1993, the covered compensation base was $22,800. The pension amounts resulting from this Formula B will be reduced to reflect retirements prior to age 60.

An additional percent increase factor based on age and service is applied to the pension amount resulting from the higher of Formula A or B. The total AMF pension results in a fixed benefit and such amount is reduced by the amount payable under the AT&T Management Pension Plan. It is anticipated that after 1997, a senior manager's normal pension increases resulting from additional age and service as well as possible future pension plan amendments could cause the regular accrued pension benefit to exceed the fixed AMF benefit. Pensions resulting from the AMF will be payable under the AT&T Non-Qualified Pension Plan.

As part of their employment agreements, the Company entered into supplemental pension arrangements with Messrs. Stead and Mandl. Pursuant to such arrangements, if employment is terminated on or after age 55 for any reason other than Company-initiated termination for "cause," as defined, these executive officers will be entitled to immediate pension benefits based on the higher of (1) a pension determined by their actual net credited service and calculated under the then-existing Company qualified and non-qualified pension formulas, but without reference to age and service eligibility requirements, or (2) a fixed minimum monthly pension schedule which, for Mr. Stead, ranges from $32,053 at age 55 to $73,893 at age 65 and, for Mr. Mandl, ranges from $30,432 at age 55 to $74,459 at age 65. Pension benefits payable under these arrangements will be paid out of the Company's operating income, and will be offset by all amounts actually received by the executive officers under any other Company qualified or non-qualified retirement plan or arrangement. In addition, Messrs. Stead and Mandl will be entitled to certain other post-retirement benefits that are generally made available to retired executive officers and service pension-eligible senior managers from time to time.

In the event Mr. Mandl's employment is terminated by the Company for any reason other than for "cause," as defined, prior to age 55, he will be eligible for a severance benefit equal to 200% of his then base salary under the provisions of his employment agreement.

Senior managers (including Messrs. Stead, Kavner, and Mandl) and certain other management employees who are hired at age 35 or over are covered by a supplemental AT&T Mid Career Pension Plan. For specified managers retiring with at least five years in level, the plan provides additional pension credits equal to the difference between age 35 and their maximum possible years of service attainable at age 65, but not to exceed actual net credited service, at approximately one-half the rate in the AT&T Management Pension Plan.

Pension amounts under either the AT&T Management Pension Plan, the AT&T Non-Qualified Pension Plan, or the AT&T Mid Career Pension Plan are not subject to reductions for social security benefits or other offset amounts. If Messrs. Allen, Pelson, and Marx continue in the positions given above and retire at the normal retirement age of 65, the estimated annual pension amounts payable under the AT&T Management Pension Plan and the AT&T Non-Qualified Pension Plan would be $1,470,995, $560,355, and $481,243, respectively. For Messrs. Stead, Kavner, and Mandl, the estimated annual pension amounts payable under the above three plans would be $548,423, $572,871, and $600,217, respectively. Amounts shown are straight-life annuity amounts not reduced by a joint and survivorship provision which is available to these officers named.

The Company has reserved the right to purchase annuity contracts to satisfy its unfunded obligations to any of these officers under the AT&T Non-Qualified Pension Plan. In the event the Company purchases an annuity contract for any officer, the pension payments for such officer will vary from that set forth above. Then there would be a tax gross-up payment to the officer and annuity benefits paid by the annuity provider will be reduced to offset the tax gross-up payment. The after-tax pension benefit will be the same as the after-tax benefit the participant would otherwise have received under the AT&T Non-Qualified Pension Plan.

OTHER INFORMATION

A Directors' and Officers' Liability Policy was renewed effective July 1, 1993, with Lloyds of London and other carriers. The policy insures AT&T for certain obligations incurred in the indemnification of its directors and officers under New York law or under contract and insures directors and officers where such indemnification is not provided by AT&T. The one-year policy's cost is $1,780,000.

The cost of soliciting proxies in the accompanying form will be borne by the Company. In addition to solicitations by mail, a number of regular employees of the Company and of its subsidiaries may solicit proxies in person or by telephone. The Company also has retained Morrow & Co. to aid in the solicitation of proxies, at an estimated cost of $18,000 plus reimbursement of reasonable out-of-pocket expenses.

The above notice and proxy statement are sent by order of the board of directors.

Robert E. Scannell
Vice President – Law and
Secretary

Dated: March 1, 1994

AT&T

American Telephone and Telegraph Company
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